

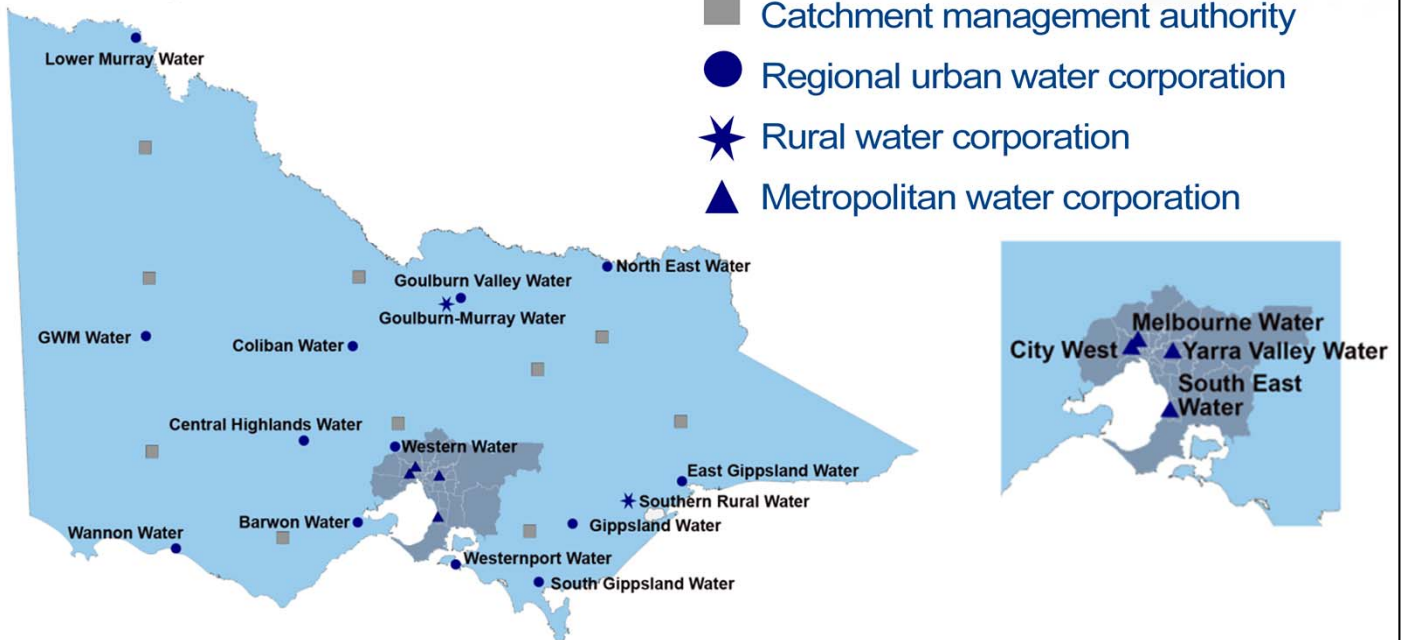
Water Entities: 2015–16 Audit Snapshot

Tabled 23 November 2016

This presentation provides an overview of the Victorian Auditor-General's report *Water Entities: 2015–16 Audit Snapshot*.

Background

- Catchment management authority
- Regional urban water corporation
- ★ Rural water corporation
- ▲ Metropolitan water corporation



The water sector consists of water corporations and catchment management authorities. This report focuses on the water corporations whereas the catchment management authorities are covered in the portfolio agencies report, also tabled on 23 November 2016.

Overview

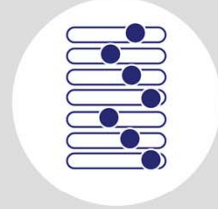
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19
water entities



Matters arising from the 2015–16 financial report and performance report audits



Seven financial sustainability indicators



Asset valuation

In this report we detail the matters arising from the 2015–16 financial and performance report audits of the 19 public entities that make up the water sector. We also assess the sector's financial performance during 2015–16 and its sustainability as at 30 June 2016.

We comment on the key matters that arose during our audits—including asset valuation—and provide an analysis of information in water entity financial and performance reports.

Results of audits

4

100%

Clear financial and performance report audit opinions for all water entities

33

Internal control/financial reporting matters identified that need to be addressed

4

Metropolitan water entities corrected errors identified in 2014–15 → removal of the audit qualifications

All 19 water entities received clear audit opinions on their financial and performance reports for the financial year ended 30 June 2016. Parliament and the Victorian community can have confidence in those reports.

In our financial audits, we reviewed the internal control frameworks of each water entity. We found 33 internal control or financial reporting matters that water entities need to address.

Water entities have acted to remediate matters raised in previous audits—resolving 70 per cent of these in 2015–16.

Last year, we issued four qualified opinions to the four metropolitan water entities because they had an error in the fair valuation of infrastructure assets. This year, we have removed these qualified opinions because of remedial actions the four metropolitan water entities took to correct the error.

Results of audits

5



\$716.9 m

Net profit before income tax, mainly due to:

- increase in regulated prices
- favourable weather conditions



\$134.6m

Increase in developer contributions from 2014–15, which reflects service expansion in Melbourne's suburbs and growth corridors.

In 2015–16, the water sector generated a net profit before income tax of \$716.9 million, mainly due to an increase in regulated prices set by the Essential Services Commission as part of Water Plan 3 and favourable weather conditions leading to more water being used.

Developer contributions continue to grow, increasing by \$134.6 million from 2014–15, reflecting the significant and continuing expansion of services in Melbourne's outer suburbs and growth corridors.

Financial sustainability

6



Water entities have a relatively low financial sustainability risk

Overall, the water sector was in a financially sustainable position as at 30 June 2016.

Financial sustainability risk assessment indicators

Net result



Interest cover



Liquidity



Internal financing



Debt service cover



Debt-to-assets



Capital replacement



When we assessed the sector against seven financial sustainability indicators, it received positive ratings for six of the seven.

Capital replacement remains a moderately rated financial sustainability risk indicator for the sector, particularly for the regional urban cohort. This indicator is likely to deteriorate in future periods as a result of the 2015–16 valuation, which increased the reported value of the sector's assets by \$2.4 billion.

Assets subject to valuation



Lake Eildon Weir

Photo courtesy of Goulburn- Murray
Rural Water

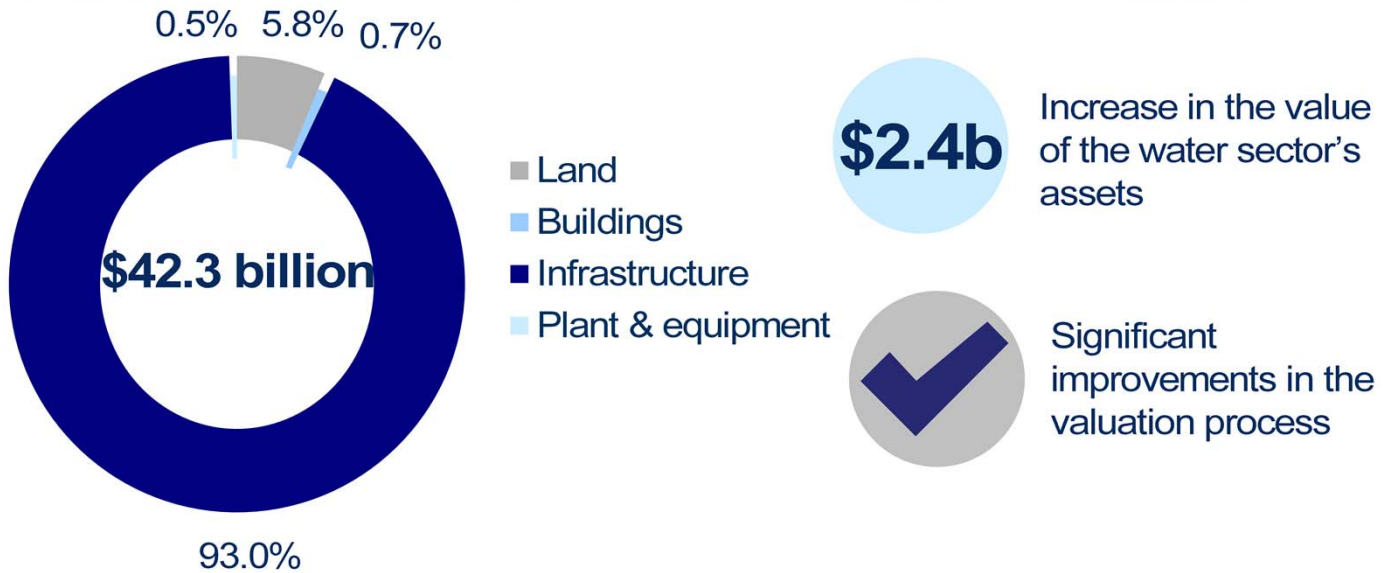


Western Treatment Plant, Werribee

Photo courtesy of Jason Patrick Ross /
Shutterstock.com

At 30 June 2016, the water sector managed more than \$42.3 billion in physical assets, such as reservoirs, pipes, pump stations and water storage tanks. These are significant investments built up over a long time and critical to delivering essential services.

Asset valuations



In 2015–16, the water entities carried out a revaluation of their physical assets, which resulted in a \$2.4 billion increase in their value. Although water entities scrutinised valuations more rigorously than in the 2010–11 valuation, problems with the quality of data submitted for valuation reduced the effectiveness of the valuation exercise.

Water entities will be able to use the information they received from the revaluations for more than financial reporting. In particular, the information will help water entities to better maintain assets and plan capital works.

Recommendations

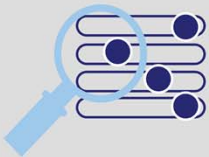
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Review their asset valuation frameworks



Review the quality of their asset data



Review the use of indices when assessing fair value during intervening balance dates



Promptly address matters raised in this year's and previous audits

We made four recommendations to water entities:

- one related to addressing matters raised in this year's and previous audits
- and three related to asset valuation.

For further information, please view the full report on
our website: www.audit.vic.gov.au

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