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Urban Water Inquiry
Productivity Commission
LB2 Collins Street East
Melbourne Vic. 3165

Dear Sir/Madam,

I refer to my previous submission dated 28 October, and wish to expand further on the observation made in the final paragraph of shortcomings relating to public sector audit processes arising from the creation of the government monopoly business entities associated with NWI reforms throughout South East Queensland.

Accountability and adaptability are key elements of efficient governance and institutional arrangements. Both elements have been lacking since 1999/00 due to Queensland's failure to embrace NWI reforms. A particularly troubling aspect is the non-current asset manipulation practices of Maroochy Council, Sunshine Coast Regional Council, and Unitywater, discussed in paragraph five of the 28 October submission. Failure of the Queensland Audit Office (QAO) to qualify their independent audit reports of these councils in years of significant revaluations of water and sewerage non-current assets has been a disservice to the public good.

The Queensland Competition Authority (QCA) issued its "Statement of Regulatory Pricing Principles" setting out on page 33 the Optimised Deprival Value methodology to be used for non-current asset valuations in December 2000. As highlighted in February 2004 (enclosure "T") QAO was notified of concerns regarding the absence of an audit qualification in the 2002/03 Annual Report of Maroochy Council arising from losses of financial reporting transparency and an unwarranted asset revaluation adjustment of \$75 million. At a 7 May meeting with the QAO these concerns were discussed in detail and enclosure "A" was tabled as supporting background documentation. QAO was also made aware of CBPRA's prices oversight investigation request of May 2003 to the Minister Local Government and Planning (MDLG&P) and the reasons behind that request.

In enclosure "V" QAO asserts that accounting treatment of revalued assets used in the 2002/03 Annual Report is correct. Given information provided at the 7 May meeting and its regular consultations with DLG&P, it is surprising that the revaluation methodology used by Council was not investigated. This refusal to probe into revaluation methodology confirmed in enclosures "W", demonstrates that both accountability and adaptability are lacking in Queensland resulting in the excessive revaluations described in paragraph five of the 28 October submission. As a consequence of these failures in governance by the QAO, Queensland Treasury and DLG&P flawed determinations of the capital recovery component of water and sewerage charges are embedded in retail service charges throughout South East Queensland.

Finally, enclosure "X" is a correspondence exchange between the former external director MWSAB (RJK) and the Queensland Government's Public Accounts Committee (PAC) relating to a public submission inquiry entitled "Government Financial Reporting" dated May 2005. It is surprising that this submission was not considered relevant to that Inquiry given that commercialisation and corporatisation of public sector entities is specifically mentioned in the discussion paper.

These enclosures detail further examples of failures in governance, accountability and adaptability in Queensland relating to adoption of NWI urban water reforms.

Yours sincerely,

R.J. Koerner (RJK)

Enclosures: "T" Letter from CBPRA to QAO dated 26 February 2004;
"U" Letter from QAO to CBPRA dated 30 April 2004 (Ref: 04-4573);
"V" Letter from QAO to CBPRA dated 31 March 2005 (Ref: 00-2313);
"W" Letter from CBPRA to QAO dated 6 April and QAO's response dated 7 April 2005;
"X" RJK submission to PAC Inquiry dated 8 July 2005 and PAC rejection dated 11 August.