



Australian Government
Bureau of Meteorology



Australian Government
Auditing and Assurance Standards Board

Water Accounting
Standards Board
An independent advisory Board to the Bureau of Meteorology

Consultation Paper: Assurance Engagements on General Purpose Water Accounting Reports



Comments are invited by 31 October 2011



Request for Comments

Comments are invited on this consultation paper by **31 October 2011**.

The Auditing and Assurance Standards Board (AUASB) was established under the *Australian Securities and Investments Commission Act 2001* to make auditing standards for the purposes of the *Corporations Act 2001* and to formulate auditing and assurance standards, and guidance, for other purposes. Under the Strategic Direction given to the AUASB by the Financial Reporting Council, the AUASB is required to develop auditing standards that have a clear public interest focus and are of the highest quality.

Under the *Water Act 2007*, the Director of Meteorology may issue National Water Information Standards relating to water information, including water accounting. The Bureau of Meteorology (the Bureau) established the Water Accounting Standards Board (WASB) as an independent advisory board to the Bureau to develop Australian Water Accounting Standards, including auditing and assurance standards.

The AUASB and the WASB approved this consultation paper, *Assurance Engagements on General Purpose Water Accounting Reports*, for publication in July 2011. Responses to the consultation paper will be considered by the AUASB and the WASB in the development of a joint standard for engagements to provide assurance on General Purpose Water Accounting Reports prepared in accordance with Australian Water Accounting Standard 1.

Respondents are asked to submit their comments on any or all of the questions in this consultation paper via email to **edcomments@auasb.gov.au**

Comments can also be mailed to:

The Chairman
Auditing and Assurance Standards Board
PO Box 204
Collins Street West
Melbourne Victoria 8007

Comments received will be published on the AUASB and Bureau websites, unless requested otherwise.

Copies of this consultation paper may be downloaded free-of-charge from www.auasb.gov.au and www.bom.gov.au/water/standards/wasb

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List of abbreviations

AASB	Australian Accounting Standards Board
AASB 101	Australian Accounting Standard 101 <i>Presentation of Financial Statements</i>
APES 110	Accounting Professional and Ethical Standard 110 <i>Code of Ethics for Professional Accountants</i>
APESB	Accounting Professional and Ethical Standards Board
APRA	Australian Prudential Regulation Authority
ASAs	Australian Auditing Standards
ASAE 3000	Australian Standard on Assurance Engagements 3000 <i>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</i>
AUASB	Auditing and Assurance Standards Board
AWAS 1	Australian Water Accounting Standard 1 <i>Preparation and Presentation of General Purpose Water Accounting Reports</i>
COAG	Council of Australian Governments
ED AWAS 1	Exposure Draft of Australian Water Accounting Standard 1 <i>Preparation and Presentation of General Purpose Water Accounting Reports</i>
GIS	Geographic Information System
GPWAR	General Purpose Water Accounting Report (or Reports)
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
ISAE 3000	International Standard on Assurance Engagements 3000 <i>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</i>
ISAE 3410	International Standard on Assurance Engagements 3410 <i>Assurance Engagements on Greenhouse Gas Statements</i>
NWA	National Water Account
NWI	National Water Initiative
QA	Quality Assurance
QC	Quality Control
RG 180	Australian Securities and Investments Commission Regulatory Guide 180 <i>Auditor Registration</i>
SWAC 8	Statement of Water Accounting Concepts 8
The Bureau	Bureau of Meteorology
WACF	<i>Water Accounting Conceptual Framework for the Preparation and Presentation of General Purpose Water Accounting Reports</i>
WASB	Water Accounting Standards Board



Introduction

This consultation paper seeks views from stakeholders on issues related to a proposed standard for assurance engagements on general purpose water accounting reports (GPWAR) being developed jointly by the Auditing and Assurance Standards Board (AUASB) and the Water Accounting Standards Board (WASB). Respondents are asked to provide comment on any or all of the questions in this consultation paper.

This joint initiative recognises the AUASB's mandate to develop auditing and assurance standards and the WASB's mandate to develop water accounting standards. It also recognises the two fields of knowledge and expertise that are necessary to develop a standard for assurance engagements on water accounting reports. The combined input from both Boards will ensure that concepts from water accounting, reporting and assurance are accurately incorporated.

The AUASB and the WASB develop standards through transparent and iterative processes whereby input is sought from stakeholders at various stages in the development process. Views obtained in response to this consultation paper will be used to develop an exposure draft of the standard, which will be released for public comment. In addition, information sessions may be held during the exposure period for the consultation paper and exposure draft to further maximise stakeholder engagement and input.

To elicit initial views, this Paper highlights a number of practical considerations that have been identified through preliminary discussions with, and feedback from, practitioners in both the assurance and water industries. The paper discusses differing views on certain issues and, in some cases, provides preliminary conclusions. This methodology is intended to promote thought and discussion of underlying issues and does not represent the final views of the AUASB or the WASB.

In commenting on the consultation paper, respondents are asked to comment not only on the technical aspects of the issues raised, but also on their public interest impact, in particular their effect on the costs (for example, work effort required) and benefits (for example, consistency and quality in reporting) of providing assurance on GPWAR.

Background

There is interest both nationally and internationally in making water accounting a key part of water resources reporting. Australia is at the forefront in applying the concepts and rigour of financial reporting to water resources. An assurance framework is an essential element in that process, as it provides a basis upon which users can derive confidence in the reliability of information contained in GPWAR.

The development of water accounting standards

In 2004, the Council of Australian Governments (COAG) established an intergovernmental agreement on the National Water Initiative (NWI). COAG identified the need for consistent water resource accounting that could be standardised, compared, reconciled and aggregated.

The *Commonwealth Water Act 2007* reaffirmed the national importance of water information and identified new functions for the Bureau of Meteorology (the Bureau) in water accounting. The Bureau's water accounting functions now include:



- compiling and maintaining water accounts for Australia, including a set of water accounts to be known as the National Water Account (NWA)
- issuing National Water Information Standards.

In October 2008, the COAG Working Group on Climate Change and Water endorsed the reconstitution of the Water Accounting Development Committee as the Water Accounting Standards Board. The WASB came into existence on 20 April 2009 as an independent advisory board to the Bureau of Meteorology that oversees and coordinates water accounting standards development.

In May 2009, the WASB approved the *Water Accounting Conceptual Framework for the Preparation and Presentation of General Purpose Water Accounting Reports* (WACF) — water accounting's equivalent to financial accounting's *Framework for the Preparation and Presentation of Financial Statements*, International Accounting Standards Board (IASB), 2001.¹ The WACF sets the context required for defining water accounting standards, including a standard for assurance engagements on GPWAR, but it does not define the standards themselves. The WACF is scheduled for revision in 2012.

In October 2010, the WASB released an exposure draft of Australian Water Accounting Standard 1 *Preparation and Presentation of General Purpose Water Accounting Reports* (ED AWAS 1) for public comment by 30 June 2011. The exposure draft is available to download at www.bom.gov.au/water/standards/wasb. Feedback received on the exposure draft will inform the development of the final AWAS 1. The transition from ED AWAS 1 to AWAS 1 is anticipated to be complete by 30 June 2012. Any changes made in finalising AWAS 1 have the potential to influence the content of the assurance standard and will be considered before finalising that standard.

Developing a standard for assurance engagements on water accounting reports

The WACF asserts the importance of obtaining assurance on GPWAR. That is, a GPWAR must include independent assurance that the GPWAR has been prepared in accordance with approved water accounting standards and other approved pronouncements, and that it is consistent with the concepts in the WACF.² The assurance engagement must be conducted in accordance with applicable auditing and assurance standards and ethical standards and principles.³

ED AWAS 1 expands on the principles in the WACF. It requires the GPWAR to contain an Assurance Statement,⁴ which is an explicit statement of whether the GPWAR is presented fairly in accordance with AWAS 1.⁵

While, the term 'Assurance Statement' is used in ED AWAS 1, it is intended to refer to the assurance report. This consultation paper uses the terms 'assurance conclusion' and 'assurance report', rather than 'Assurance Statement', to distinguish clearly between these items.

ED AWAS 1 requires that the assurance report must be prepared by an appropriately qualified and independent assurance practitioner.⁶

¹ Parts of the *Framework for the Preparation and Presentation of Financial Statements*, International Accounting Standards Board (IASB), 2001 were updated in September 2010 and the document is now called *Conceptual Framework for Financial Reporting*.

² *Water Accounting Conceptual Framework for the Preparation and Presentation of General Purpose Water Accounting Reports*, Water Accounting Standards Board, 2009 (WACF), *Statement of Water Accounting Concept 8* (SWAC 8), paragraph 9.

³ WACF, SWAC 8, paragraph 10.

⁴ *Exposure Draft of Australian Water Accounting Standard 1*, Water Accounting Standards Board, 2009 (ED AWAS 1), paragraph 7.

⁵ ED AWAS 1, paragraph 167.

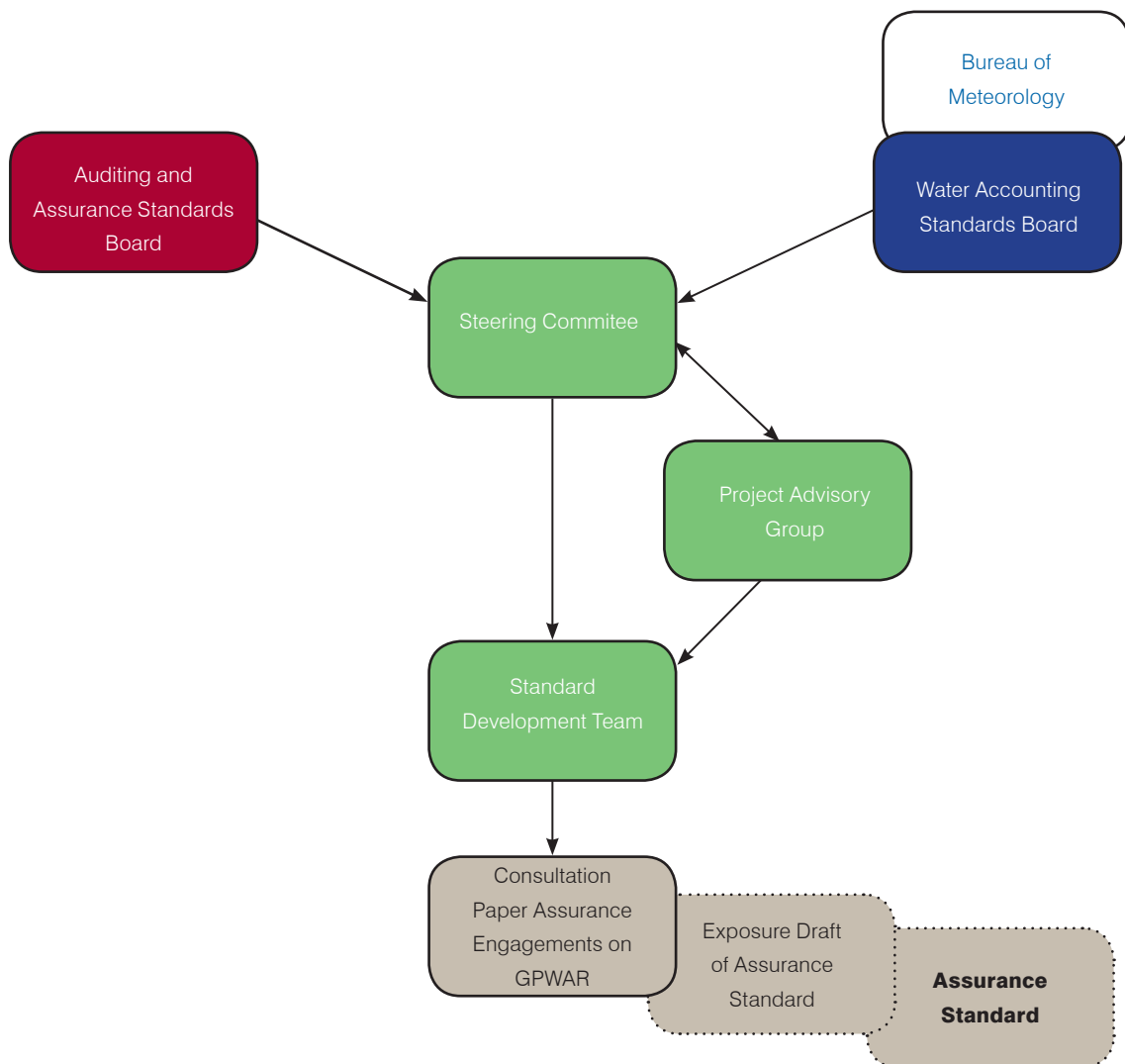
⁶ ED AWAS 1, paragraph 169.



In May 2010, the AUASB and the WASB agreed to work jointly on the development of a standard for assurance engagements on water accounting reports and work commenced on the project in November 2010.

To develop the assurance standard, the AUASB and the WASB established the governance structure depicted in Figure 1.

Figure 1: Governance structure for the development of a standard on assurance engagements on GPWAR

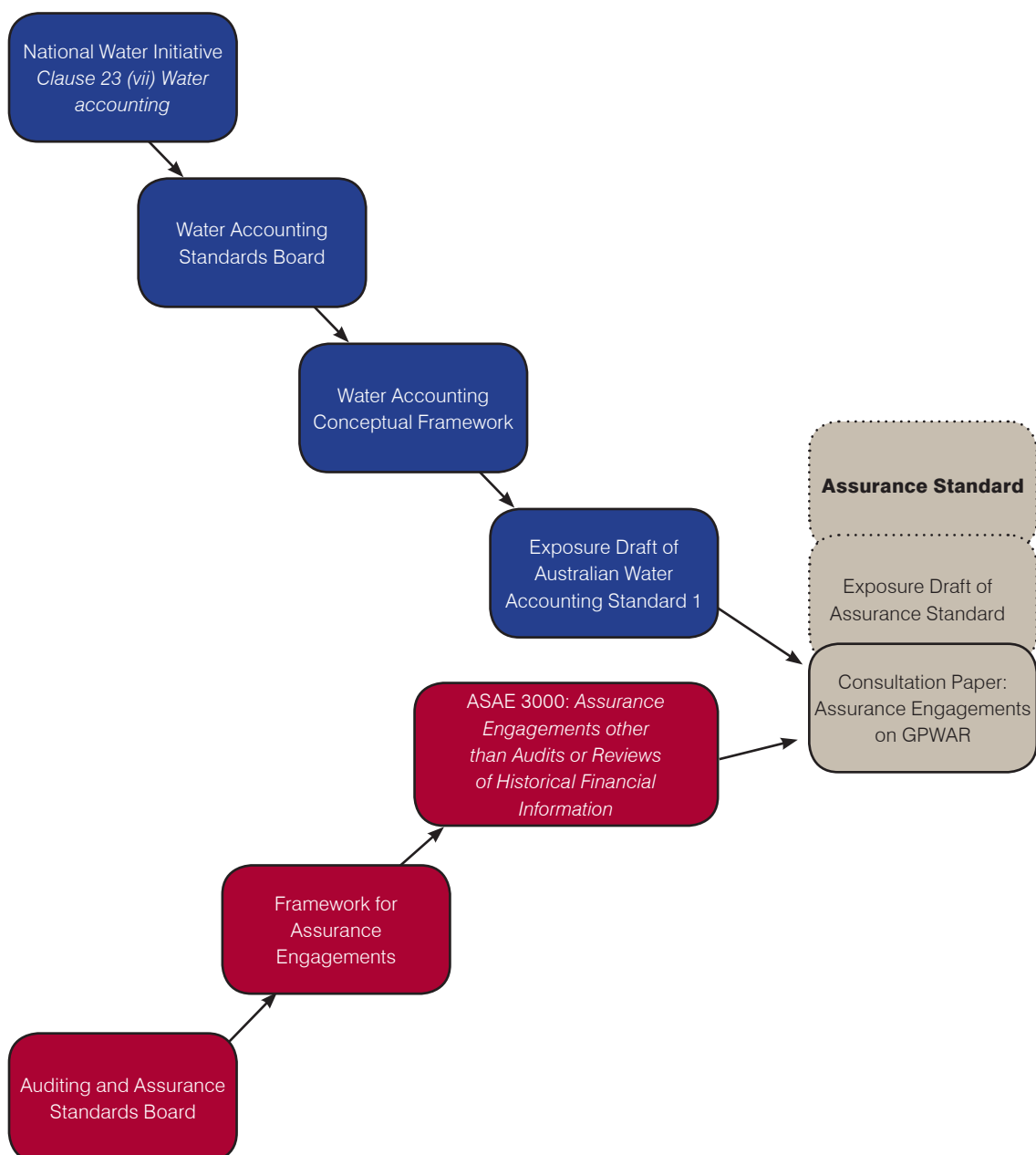




In March 2011, the WASB commenced a separate project to consider how an assurance engagement might be conducted on the NWA. The project involves a step-by-step breakdown of the procedures an assurance practitioner would perform (an assurance walk-through) in order to produce an assurance report on two water accounting reports of the NWA 2010 and the findings of the project (due in August 2011) will be used to determine the basis for obtaining assurance on future national water accounts. It is anticipated that the findings may also provide information that is useful in the development of the standard for assurance engagements on GPWAR.

Figure 2 illustrates the water information standards development program to date.

Figure 2: Water information standards development program to date





What is a GPWAR?

A GPWAR is a water accounting report intended to meet information needs common to users who are unable to command the preparation of water accounting reports tailored to satisfy their information needs. The users of GPWAR fall into a broad range of categories, including:⁷

- water users, such as environmental, agricultural, urban, industrial and commercial users
- investors in water dependent enterprises and related parties, such as lenders, creditors, suppliers, insurers and water traders and water brokers
- government representatives and their advisors, including water related economic, environmental and social policy makers
- water industry regulators
- water managers, including environmental water managers and water service providers who may be interested in not only the water entities they manage but also water entities on which they depend, or against which they compare or benchmark their performance
- groups and associations with water-related interests
- water industry consultants
- academics
- interested citizens.

Assurance practitioners may also be regarded as users of GPWAR.

A GPWAR is prepared in accordance with AWAS 1 and comprises a Contextual Statement, an Accountability Statement, water accounting statements, accompanying note disclosures and an assurance report.⁸

What is assurance?

In many situations today, directors, managers, trustees and others (called 'responsible party/ies') need to account for their performance to third parties (or users) who may rely on that accounting as an aid to their decision making. However, a report by the responsible party may be seen as potentially biased, as the responsible party may have an incentive to prepare the report in the best possible light, or it may be misstated due to fraud or error. Thus, assurance is sought from an independent assurance practitioner that the report has been prepared in accordance with the reporting framework, which includes approved reporting standards.

Assurance is a specialised discipline, separate to accounting, with procedures that can be applied in various contexts, including assurance on historical financial information or reports and assurance on non-financial information, such as GPWAR.

Independent assurance enables users to derive confidence that the information presented in the report is reliable, in all material respects. The independence of the assurance practitioner from the responsible party(ies) enhances the credibility of the report provided by the responsible party(ies) to users. Users derive value from the knowledge that an independent assurance practitioner has no interest in the report other than its usefulness to intended users.

The concept of assurance is illustrated in Figure 3.

⁷ As identified in the Preface to the WACF.
⁸ ED AWAS 1, paragraph 7.



Figure 3: Concept of assurance



An assurance engagement involves a systematic process undertaken by an independent assurance practitioner that includes:

- establishing whether the preconditions for an assurance engagement are present⁹
- agreeing the terms of the assurance engagement¹⁰
- obtaining an understanding of the underlying subject matter
- considering the risks of material misstatement
- planning the engagement

⁹ Before entering into an assurance engagement on a general purpose water accounting report (GPWAR), the assurance practitioner needs to ascertain that the responsible party(ies) acknowledges their responsibility for preparation of the GPWAR in accordance with AWAS and other applicable standards, regulations and legislation, and to provide access to all relevant information and persons to enable the assurance practitioner to perform the assurance engagement.

¹⁰ The agreed terms of engagement would ordinarily be recorded in an engagement letter and include the objective and scope of the assurance engagement, the responsibilities of the assurance practitioner and the water entity responsible party(ies), identification of the applicable Australian Water Accounting Standards (AWAS) and other requirements, reference to the form and content of the report to be issued by the assurance practitioner, and the anticipated timing and cost of the engagement.



- determining the nature, timing and extent of procedures necessary to obtain the level of assurance required
- performing those procedures
- forming a conclusion
- reporting on the engagement.

There are different types of assurance engagements:

- audit
- review engagements
- compliance engagements
- performance engagements.

There are also different levels of assurance:

- reasonable assurance
- limited assurance.

All assurance engagements involve at least three separate parties:

- a responsible party
- an intended user
- an independent assurance practitioner.

Depending on the engagement circumstances, there may be more than one responsible party. For example, in assurance engagements on certain GPWAR, there may be one party(ies) responsible for managing the water assets and water liabilities of the water report entity and another party(ies) responsible for preparing and presenting the GPWAR.

Why is assurance necessary?

The purpose of assurance in relation to water accounting reports is to enhance the confidence of users of GPWAR when utilising those reports for making and evaluating decisions about the allocation of resources.¹¹

Independent assurance is a key element to enhancing the quality of reported information.

Why is a standard necessary?

An assurance standard provides a structured approach for the conduct of assurance engagements by assurance practitioners and leads to higher quality assurance engagements and consistency in assurance reporting. A standard contains requirements that must be adhered to by assurance practitioners, as well as guidance to assist in the application of those requirements.

The existence of an assurance standard provides confidence to users that the assurance report, including the assurance conclusion, is based on the performance of rigorous and consistent assurance processes that provide the assurance practitioner with evidence to support the conclusion reached and the assurance provided

¹¹ WACF, SWAC 8, Paragraph 12.



Matters addressed in a standard for assurance engagements on GPWAR

The structure of a standard for assurance engagements would ordinarily reflect the sequence of considerations and processes that take place in an actual assurance engagement. For example, Table 1 lists the matters that may be covered in a standard for assurance engagements on GPWAR.

Table 1: Matters addressed in a standard for assurance engagements on GPWAR

Assurance engagement	Matters addressed in a standard for assurance engagements on GPWAR
Overriding considerations	<ul style="list-style-type: none"> relationship of this standard to other standards objectives of the assurance engagement roles and responsibilities in assurance engagements ethical requirements quality control professional judgement and professional scepticism
Acceptance	<ul style="list-style-type: none"> preconditions for an assurance engagement acceptance and continuance
Planning	<ul style="list-style-type: none"> understanding the water report entity and its environment <ul style="list-style-type: none"> enquiries analytical procedures observation and inspection assessing risks of material misstatement materiality planning the engagement
Performance	<ul style="list-style-type: none"> obtaining evidence responses to assessed risks: <ul style="list-style-type: none"> test of controls (e.g. in GPWAR aggregation processes) analytical procedures confirmation estimates and uncertainty
Other matters	<ul style="list-style-type: none"> using the work of component practitioners using the work of experts written representations subsequent events comparative information
Forming a conclusion	<ul style="list-style-type: none"> unmodified conclusions modified conclusions
Reporting	<ul style="list-style-type: none"> content of the assurance report
Documentation	<ul style="list-style-type: none"> documentation as evidence of the work performed



Key issues upon which comments are invited

Relationship of a standard for assurance engagements on GPWAR to existing auditing and assurance standards

1. In developing a standard for assurance engagements on GPWAR, the AUASB and the WASB considered three alternatives:
 - (a) Use existing AUASB standards, to be applied by assurance practitioners on GPWAR engagements.
 - (b) Develop a new, standalone standard, specific to assurance engagements on GPWAR, without reference to existing AUASB standards.
 - (c) Develop a new standard, which incorporates references to existing AUASB standards, where relevant.

Alternative 1: Use existing AUASB standards

2. AUASB standards are developed through rigorous and transparent processes involving extensive consultation with stakeholders, including auditors and other assurance practitioners, professional accounting bodies, government agencies, regulators, standards setters and other interested parties. Consultation is undertaken through discussion papers and exposure drafts issued for public comment, and formal and informal discussions with stakeholders. The AUASB also conducts an annual consultative meeting. A project advisory group is established for each standard development project, comprising experts from a range of backgrounds, to provide technical and practical advice to the AUASB. The AUASB also has regard to the work of the International Auditing and Assurance Standards Board (IAASB) and ensures, to the extent possible, that Australian standards conform with equivalent international standards. In this way, the AUASB promotes the development of globally consistent standards that are based on international best practice.
3. AUASB standards exist already that might be applied to assurance engagements on GPWAR. The standard that is most relevant to this project is the Australian Standard on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (2007). The IAASB is currently revising International Standard on Assurance Engagements ISAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (2005), the international standard on which ASAE 3000 is based. The impact of any changes made to ISAE 3000, including consequential amendments to ASAE 3000, will be considered before finalising the standard for assurance engagements on GPWAR.
4. ASAE 3000 is widely used by assurance practitioners on a range of engagements other than assurance on historical financial information and could be applied to assurance engagements on GPWAR.
5. However, given that water accounting is a new and evolving discipline, there may be merit in developing a new, subject-specific standard for assurance engagements on GPWAR.



Alternative 2: Develop a new, standalone assurance standard

6. A new, standalone standard would incorporate any requirements and guidance unique to GPWAR as well as relevant requirements and guidance from existing AUASB standards, customised for water accounting concepts, to enable it to operate independently, without reference to existing AUASB standards.
7. For example, the requirements and guidance in ASAE 3000 could be adapted to apply to assurance engagements on GPWAR. In addition, it is likely that certain requirements and guidance contained in Australian Auditing Standards may be relevant,¹² as adapted, given that water accounting and reporting principles have been developed from existing financial accounting and reporting principles.
8. A new standard currently being developed by the IAASB that may also be relevant is ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements*, which was issued by the IAASB in January 2011 as an exposure draft for public comment.
9. A standalone assurance standard may assist assurance practitioners as:
 - (a) the requirements and guidance would be contained within one document and there would be no need to refer to other standards
 - (b) the application of assurance principles, knowledge, skills and experience to water accounting is new and a standalone standard may assist practitioners performing assurance engagements on GPWAR a dedicated standard will ensure that appropriate water accounting concepts¹³ are inserted and captured in the standard

¹² There are several key requirements in the Australian Auditing Standards that are likely to apply. One example is Auditing Standard ASA 210 *Agreeing the Terms of Audit Engagements*, paragraph 6 relating to preconditions for an engagement. This could be modified in the following manner to apply to engagements to provide assurance on GPWAR:

In order to establish whether the preconditions for the engagement are present, the assurance practitioner shall:

- (a) Determine whether the reporting framework to be applied in the preparation of the GPWAR is acceptable; and
- (b) Obtain the agreement of management that it acknowledges and understands its responsibility:
 - (i) *For the preparation of the GPWAR in accordance with the applicable reporting framework, including where relevant its fair presentation;*
 - (ii) *For such internal control as management determines is necessary to enable the preparation of the GPWAR that is free from material misstatement, whether due to fraud or error; and*
 - (iii) *To provide the assurance practitioner with:*
 - a. *Access to all information of which management is aware that is relevant to the preparation of the GPWAR such as records, documentation and other matters;*
 - b. *Additional information that the assurance practitioner may request from management for the purpose of the engagement; and*
 - c. *Unrestricted access to persons with responsibilities relating to the water report entity from whom the assurance practitioner determines it necessary to obtain audit evidence.*

- 13 Water accounting concepts specific to water accounting include:
 - Users include multiple stakeholders for making and evaluating decisions about water use (as opposed to the financial reporting focus on providing information for economic decision-making).
 - The primary unit of account is water volumes rather than money (although details of water rights trading may ultimately be required to be disclosed in financial reports).
 - Water report entities will often be geographic regions and/or physical water systems rather than organisations.
 - There may be a distinction between the water report entity (such as a particular catchment) and the report preparer (such as a government authority).
 - There may be significant variation in the accuracy of water data, particularly when extensive data modelling and estimation are required.
 - Comparative data for several years may be needed to interpret results.
 - Disclosure of compliance with water management plans may be useful for discharging management accountability.



- (c) there is the potential that assurance practitioners for GPWAR will be drawn from non-accounting and auditing backgrounds and therefore a new standard could be framed to cover a broader range of assurance practitioners.
10. On the other hand, a standalone standard may lead to the standard being too lengthy. It may also seem duplicative and repetitive to an appropriately skilled assurance practitioner already familiar with the application of ASAE 3000.

Alternative 3: Develop a new standard that refers to existing AUASB standards

11. The alternative to a standalone standard is one that focuses on the requirements and guidance that are related specifically to providing assurance on GPWAR, while referring to other standards, mainly ASAE 3000, where the requirements and guidance are of a generic nature, applicable to any assurance engagement.
12. This type of standard would not be as lengthy as a standard developed under Alternative 2, but would provide water specific concepts, requirements and guidance. At the same time, it would refer to existing AUASB standards and encourage consistency in assurance practice and reporting.
13. An additional benefit of this approach is that the cost of developing an assurance standard may be lower, relative to Alternative 2.

Questions – *it is suggested that respondents may wish to re-consider Question 1 after reviewing the entire consultation paper, as other key issues may influence the response to this question.*

- Q1. Which of the three alternatives do you prefer for a standard on assurance engagements on GPWAR? Please provide reasons to support your view.

Who should perform assurance engagements on GPWAR?

14. ED AWAS 1 provides that the assurance report¹⁴ shall be prepared by an appropriately qualified and independent assurance practitioner, but does not prescribe the criteria against which an assurance practitioner's qualifications and independence should be assessed.
15. The WACF and ASAE 3000 define an assurance practitioner as:
- A person or an organisation, whether in the private or public sector, involved in the provision of assurance services.*¹⁵
16. It is possible that assurance engagements on GPWAR will be undertaken by practitioners from the following backgrounds:
- (a) There are professional accountants with specialist knowledge, training and experience in assurance practices, particularly those who undertake company audits, who are capable of performing engagements dealing with subject matters other than historical financial information (such as engagements to provide assurance on GPWAR). Where necessary, professional accountants specialising in

¹⁴ ED AWAS 1, paragraph 169 currently uses the term 'Assurance Statement' to refer to the assurance conclusion, within the assurance report.

¹⁵ WACF, SWAC 8, paragraph 14 and ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, paragraph 4.



assurance can engage subject matter experts to assist in parts of an engagement, for example, to assist in verifying the appropriate application and results of models. Standards exist to govern the use of experts by assurance practitioners.¹⁶

- (b) Alternatively, there are subject matter experts, including scientists, engineers, hydrologists and professionals from backgrounds other than financial reporting, auditing and assurance, who have expertise in the quantification of water volumes and water accounting. Similar to the assurance specialists discussed in paragraph 15(a), these professionals could, if necessary, acquire knowledge, skills and experience in assurance processes, and engage appropriately skilled experts, to enable them to perform assurance engagements on GPWAR.
17. Whatever their background, assurance practitioners for engagements on GPWAR will require skills in both assurance and water quantification and accounting, or have access to expert assistance, where necessary.
 18. The discipline of water accounting has been developing for many years and it is now at the point where organisations at the jurisdictional level are publishing GPWAR. The experience of these organisations is that it has taken considerable resources to develop the required skills and techniques to be able to produce a meaningful GPWAR.
 19. These organisations have also found that the skills required to produce water accounts are varied and they have needed continued attention from professionals with a high level of experience in their respective fields. For example, a GPWAR produced by one of the jurisdictional bodies required a dedicated team comprising professional accountants, engineers, mathematicians, geographic information system (GIS)¹⁷ experts, modelling specialists and access to other subject matter experts on a needs basis. The development of this team and its understanding of water accounting has taken several years.
 20. Based on the experiences of GPWAR preparers, it is likely that in developing comprehensive assurance capability, a multidisciplinary approach may be required and that new intellectual property, procedures and approaches may need to be developed by assurance practitioners when carrying out audit procedures aimed at providing assurance on water accounting reports; and this process may take a number of years.
 21. The challenge in developing an assurance standard is to find a way of making it applicable to all those who should, in the public interest, be able to perform high quality assurance engagements and provide assurance on GPWAR.
 22. The assurance standard could include requirements and guidance as to qualifications and competencies of assurance practitioners that are either:
 - (a) principles-based, or
 - (b) prescriptive, including registration requirements for assurance practitioners

¹⁶ ASA 500 *Audit Evidence*, paragraphs 8 and A34-A48, and ASA 620 *Using the Work of an Auditor's Expert*.

¹⁷ A geographic information system (GIS) is a system designed to capture, store, manipulate, analyse, manage and present all types of geographically referenced data. In the simplest terms, GIS is the merging of cartography, statistical analysis and database technology. Sometimes referred to as geospatial information system.



Principles-based approach to qualifications and competencies

23. In a principles-based assurance standard, the requirements could be expressed as follows:

Skills, knowledge and experience

The lead assurance practitioner shall:

- (a) *have sufficient assurance skills, knowledge and experience, and sufficient competence in the quantification and reporting of water assets and water liabilities, to accept responsibility for the assurance conclusion; and*
- (b) *be satisfied that the engagement team and any practitioner's external experts collectively possess the necessary professional competencies in the quantification and reporting of water assets and water liabilities and in assurance to perform the assurance engagement in accordance with this standard.¹⁸*

24. These requirements could be supported by guidance material, for example:

Competencies for providing assurance on a GPWAR include:

- (a) *general understanding of water science, including the sources and uses of water and the quantification of water volumes;*
- (b) *understanding who are the intended users of the GPWAR, and how they are likely to use the information in the report;*
- (c) *understanding of water sharing plans, water trading schemes and related market mechanisms, water rights, allocations, and restrictions on water use, where relevant;*
- (d) *knowledge of applicable laws and regulations, if any, that affect how the management group or report preparer should report the water assets and liabilities of the water report entity;*
- (e) *knowledge of the applicable criteria, including, for example:*
 - (i) *identifying those aspects of the criteria that call for significant estimates to be made, or for the application of considerable judgement; and*
 - (ii) *the levels of accuracy or precision of the quantification approaches used by the water report entity in preparing the GPWAR.¹⁹*

Prescriptive approach to qualifications and competencies

25. Prescriptive requirements regarding qualifications, experience and competency for assurance practitioners would ordinarily be established in legislation and/or relevant professional bodies, not in financial accounting, auditing or assurance standards.

¹⁸ Adapted from *Exposure Draft of Proposed International Standard on Assurance Engagements ISAE 3410 Assurance Engagements on Greenhouse Gas Statements*, International Auditing and Assurance Standards Board (IAASB), January 2011, paragraph 15.

¹⁹ Adapted from exposure draft of proposed ISAE 3410, paragraph A17.



Similarly, requirements for registration would ordinarily be established in legislation and monitoring of compliance with registration requirements and enforcement would be administered by a separate authority.²⁰

26. Prescriptive requirements could require the assurance practitioner to have specified tertiary and professional qualifications, pass certain examinations (for example, to test knowledge of AWAS 1 and other applicable laws and regulations), and fulfil specified requirements relating to experience in assurance and water sciences. These requirements could also oblige assurance practitioners to register with a controlling body that could be established to assess applications for registration, maintain a register of qualified practitioners and monitor ongoing compliance with the registration requirements.
27. A prescriptive approach may appear to provide greater clarity on the question of who can perform assurance engagements on GPWAR. However, it is possible that it may inadvertently exclude other practitioners who could legitimately provide assurance on GPWAR. A prescriptive approach is also likely to involve additional costs (compared to a principles-based approach) related to the establishment and maintenance of a register and enforcement of the requirements. It is possible that the development and application time for a prescriptive approach would be longer than for a principles-based approach, given the time necessary to determine requirements, establish the controlling body and process applications for registration.
28. On balance, the WASB and the AUASB favour a principles-based approach, without detailed prescriptive requirements regarding qualifications and a formal registration process.
29. In the event that a formal registration process is required for assurance practitioners performing assurance engagements on GPWAR, the AUASB and the WASB believe that such requirements should not be included in the assurance standard.

Questions

- Q2. Do you agree that the qualifications' requirements in the proposed assurance standard should be principles-based and not prescriptive? Please provide reasons for your view.
- Q3. If you answered 'yes' to Question 2, are the suggested qualifications' requirements and guidance in paragraphs 23-24 appropriate?
- Q4. Are there any other qualifications' requirements and guidance that should be included in the assurance standard?
- Q5. Do you think that the assurance standard should be available for application by anyone with appropriate skills and who can meet appropriate ethical and quality control requirements, or do you believe it should be restricted to only those persons with particular accreditation from certain bodies?
- Q6. Please provide details of regulators that may be appropriate to set accreditation requirements for assurance practitioners performing assurance engagements on GPWAR.

²⁰ See the *Corporations Act 2001*, section 1280; Australian Securities and Investments Commission Regulatory Guide 180 *Auditor Registration* (RG 180) and the *Auditing Competency Standard for Registered Company Auditors*, issued jointly by the Institute of Chartered Accountants in Australia and CPA Australia.



Ethical requirements, including independence

30. Independence underpins the concept of assurance. ED AWAS 1 requires the assurance practitioner to be independent but does not prescribe the criteria against which independence should be assessed.
31. WACF and ASAE 3000 provide that the assurance practitioner be governed by, or comply with, the following:
 - (a) ethical standards and principles related to integrity, objectivity, professional competence and due care, confidentiality and professional behaviour
 - (b) applicable codes of conduct
 - (c) quality control requirements for firms
 - (d) other applicable auditing or assurance standards
 - (e) relevant legislative requirements.²¹
32. Questions arise as to whether the assurance standard should include requirements in relation to ethical behaviour, including independence, and how such requirements should be expressed given that assurance practitioners are likely to be drawn from accounting and other professional backgrounds.
33. For example, professional accountants in Australia have independence requirements for assurance engagements set out in Australian Professional and Ethical Standard 110 *Code of Ethics for Professional Accountants* (APES 110 or the Code) issued by the Accounting Professional and Ethical Standards Board (APESB). The Code describes in detail the fundamental ethical principles and emphasises that compliance with the principle of objectivity requires being independent of assurance clients.²² The Code also describes how threats to independence may arise and how safeguards must be put in place to deal with such threats.
34. Requirements relating to independence may also be included in laws and regulations, in certain circumstances.²³
35. Independence requires both independence of mind and independence in appearance. Independence of mind is the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional scepticism. Independence in appearance exists when reasonable and informed third parties having knowledge of all relevant information conclude that integrity, objectivity and professional scepticism have not been compromised.²⁴
36. Independence does not mean that an assurance practitioner has to be free from all economic, financial and other relationships. However, relationships should be such that they do not impair independence of mind and independence in appearance, or safeguards can be put in place to counteract any threats of such impairment.²⁵

²¹ WACF, SWAC 8, paragraphs 15-19 and ASAE 3000, paragraphs 6, 9 and 12.

²² Australian Professional and Ethical Standard 110 *Code of Ethics for Professional Accountants* (APES 110), Accounting Professional and Ethical Standards Board, December 2010, paragraph 291.3.

²³ For example, the *Corporations Act 2001* sets out requirements for auditor independence.

²⁴ Adapted from APES 110, paragraphs 290.8-290.9.

²⁵ Ibid.



37. There may be situations where there is a potential threat to the independence and objectivity of either an assurance practitioner or an expert engaged by the assurance practitioner. For example, the expert may have been involved with the quantification of an element of the GPWAR. In these circumstances safeguards to maintain the integrity of the assurance process may be needed. The nature of the safeguards to be applied will vary depending on the circumstances. In exercising professional judgement, the assurance practitioner should consider what a reasonable and informed third party, having knowledge of all relevant information, including the significance of the threat and the safeguards applied, would conclude to be unacceptable.²⁶

38. The assurance standard could include a requirement such as:

The assurance practitioner shall comply with relevant ethical requirements, including those pertaining to independence.

39. This requirement could be supported by guidance material stating that:

Relevant ethical requirements include those contained in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board related to assurance engagements, or other professional requirements, or requirements imposed by laws or regulations, that are at least as demanding.²⁷

Questions

Q7. Do you agree that the proposed assurance standard should include a requirement relating to compliance with relevant ethical principles, including independence?

Q8. Would a requirement such as that in paragraph 38, with additional guidance such as that in paragraph 39, cover assurance practitioners from a range of backgrounds?

Q9. Do you believe that appropriate safeguards relating to threats to independence can be put in place to ensure the integrity of the assurance process? If so, please list some of those safeguards.

Q10. Please provide details of codes of ethics or conduct, or other professional requirements, or laws and regulations, covering other professional groups that may be involved in assurance engagements on GPWAR, which contain similar ethical requirements to those contained in the *Code of Ethics for Professional Accountants*.

What is the subject matter information upon which assurance is to be provided?

40. The issue has been raised about whether assurance is to be provided on the GPWAR as a whole, or on components of the GPWAR.

41. Existing standards define an assurance engagement as:

An engagement in which the assurance practitioner obtains sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the measurement or evaluation of an underlying subject matter against criteria.²⁸

²⁶ Ibid, paragraph 100.15.

²⁷ This wording is based on the approach taken in the IAASB exposure draft on ISAE 3000.

²⁸ Definition proposed in the IAASB exposure draft on ISAE 3000. This definition is consistent with the definition in



42. In general purpose water accounting, the terms in this definition can be understood as follows:
- (a) *criteria*—the benchmarks used to measure or evaluate the underlying subject matter, that is, WACF and AWAS 1, including requirements relating to the presentation, identification, recognition, quantification and disclosure of the elements in the components of a GPWAR. The *applicable criteria* are the criteria used for the particular engagement.
 - (b) *underlying subject matter*—the matter that is measured or evaluated using criteria, that is, the elements of a GPWAR (water assets, water liabilities, changes in water assets, changes in water liabilities and net water assets).
 - (c) *outcome of the measurement or evaluation of an underlying subject matter*—this is the *subject matter information*, that is, the components of a GPWAR, being the:
 - (i) Contextual Statement
 - (ii) Accountability Statement
 - (iii) Statement of Water Assets and Water Liabilities
 - (iv) Statement of Changes in Water Assets and Water Liabilities
 - (v) Statement of Physical Water Flows
 - (vi) Note disclosures
 - (vii) Assurance Report.
 - (d) *responsible party*—the accountable party(ies).
43. The WACF draws on, where useful, the *Framework for the Preparation and Presentation of Financial Statements*.^{29,30} In this respect, at a high level, it is possible to say that the components of a GPWAR are analogous to the components of a General Purpose Financial Report, albeit with important differences related to the underlying subject matter of the reports and certain recognition criteria.
44. A comparison between financial reporting and water reporting is presented in Table 2.

ASAE 3000.

29 *Framework of the Preparation and Presentation of Financial Statements*, Australian Accounting Standards Board (AASB), December 2007 (this Framework is currently being updated by the AASB) and *Framework of the Preparation and Presentation of Financial Statements*, IASB, 2001 (parts of this Framework were updated in September 2010 and the document is now called *Conceptual Framework for Financial Reporting*).

30 Stated in the Preface to the WACF, paragraph 28.



Table 2: Comparison between financial reporting and water reporting

Financial reporting	Water reporting
<p><i>Directors' Report:</i></p> <p>Published in the annual report along with the financial statements.</p> <p>Not audited/assured, but considered by the auditor/assuror in accordance with Australian Auditing Standard ASA 720.</p>	<p>The <i>Contextual Statement</i> may have similarities to the Directors' Report (see paragraph 45-48).</p>
<p><i>Financial Statements:</i></p> <ul style="list-style-type: none"> • Balance Sheet/Statement of Financial Position • Statement of Comprehensive Income • Statement of Changes in Equity • Statement of Cash Flows • Notes to the financial statements 	<p><i>Water Accounting Statements:</i></p> <ul style="list-style-type: none"> • Statement of Water Assets and Water Liabilities • Statement of Changes in Water Assets and Water Liabilities • No equivalent • Statement of Physical Water Flows • Note disclosures
<p><i>General Purpose Financial Report:</i></p> <ul style="list-style-type: none"> • Financial statements • Notes to the financial statements • Directors' Declaration <p><i>GPFRs are audited in accordance with Australian auditing standards.</i></p>	<p><i>Components of a GPWAR:</i></p> <ul style="list-style-type: none"> • Contextual Statement • Water accounting statements • Note disclosures • Accountability Statement (see paragraphs 49-54)

45. In an audit of a financial report, the auditor expresses an opinion on the financial report as a whole. The financial report comprises the financial statements, notes to the financial statements and the Directors' Declaration.

Questions – respondents may wish to reconsider Question 11 after reviewing paragraphs 46-54 and Questions 12 and 13.

Q11. Should assurance be provided on the GPWAR as a whole, taking into account each component of the GPWAR: the Contextual Statement, water accounting statements, note disclosures and the Accountability Statement?

Contextual Statement

46. In the comparison in paragraph 44, the Contextual Statement is shown as possibly having similarities to the Directors' Report in financial accounting. However, there is one key difference: the Directors' Report is not part of the financial report, whereas the Contextual Statement is defined as a component of a GPWAR.

47. When the financial report is published with other information, such as within an annual report containing a Directors' Report and management discussion and analysis, the



auditor has no specific responsibility for determining whether or not other information is properly stated and the auditor's opinion on the financial report does not cover other information.³¹ However, the auditor reads the other information because the credibility of the audited financial report may be undermined by material inconsistencies between the audited financial report and other information.³²

48. Using this comparison, the Contextual Statement is highlighted as a component of the GPWAR that might not be assured, but must nonetheless be considered by the assurance practitioner to be satisfied that nothing in the Contextual Statement contradicts, or raises uncertainty about, the information contained in other components of the GPWAR.

Questions

- Q12. Should assurance be provided on the Contextual Statement in a GPWAR?

Accountability Statement

49. Stakeholders have identified the Accountability Statement as one component of the GPWAR that may require special consideration in terms of assurance.
50. ED AWAS 1 requires the preparer to include a signed Accountability Statement in the GPWAR,³³ which provides information covering three aspects of water management and reporting. This information assists users to assess whether:
- (a) the GPWAR has been prepared and presented in accordance with AWAS 1
 - (b) there has been compliance with externally-imposed requirements relevant to managing the water assets and water liabilities
 - (c) best practices have been applied in managing the water assets and water liabilities.
51. Where there has been non-compliance with AWAS 1 or externally imposed requirements, the GPWAR preparer is required to disclose further information in the Accountability Statement about the nature of, and reasons for, the non-compliance, and reference to other note disclosures about the non-compliance.
52. The form of the Accountability Statement will vary for different water report entities according to whether :
- (a) there is a single party accountable for preparing and presenting the GPWAR in accordance with AWAS and for managing the water assets and water liabilities of the water report entity; or
 - (b) one party is accountable for preparing and presenting the GPWAR in accordance with AWAS and a different party is accountable for managing the water assets and water liabilities of the water report entity. In this situation, the Accountability Statement may be supported by representations made by the report preparer.³⁴

³¹ Where an audited Remuneration Report is required to be included in an Annual Report, the auditor includes a separate section in the auditor's report headed, *Report on the Remuneration Report*. See ASA 700 *Forming and Reporting on a Financial Report*.

³² ASA 720 *The Auditor's Responsibilities Relating to Other Information in Documents Containing an Audited Financial Report*.

³³ ED AWAS 1, paragraphs 50-57.

³⁴ ED AWAS 1, Implementation Guidance H. The certification process used in general purpose water accounting is analogous to the use of written representations in financial reporting and auditing.



53. In both cases, the Accountability Statement will be signed and dated by the person(s) or representative(s) of the management group accountable for preparing and presenting the GPWAR.
54. Existing standards relating to how an assurance practitioner deals with laws and regulations impacting a reporting entity³⁵ and the use of written representations³⁶ may provide guidance on the assurance of the Accountability Statement. Relevant sections within existing standards could be adapted for inclusion in the proposed standard for assurance engagements on GPWAR.

Questions

- Q13. Do you consider that assurance can be provided on each of the three aspects covered in the Accountability Statement? Please provide reasons to support your views.

Elements of a GPWAR

55. The elements of a GPWAR are:³⁷
- (a) Water assets
 - (b) Water liabilities
 - (c) Net water assets
 - (d) Changes in water assets
 - (e) Changes in water liabilities.

Unaccounted-for difference

56. One complexity in a GPWAR is the unaccounted-for difference. This can occur when there is an unexplained change in water assets and water liabilities during the reporting period. The unaccounted-for difference is presented in the Statement of Changes in Water Assets and Water Liabilities and the Statement of Physical Water Flows.³⁸ Where there are unaccounted-for differences, it is likely that there would be supporting note disclosures in the GPWAR, although this is not currently an explicit requirement of ED AWAS 1.³⁹
57. The unaccounted-for difference may be attributable to:
- error terms that are implicit in the use of hydrologic modelling
 - the absence of items required for a hydrologic water balance
 - a lack of information required to represent water assets, water liabilities or changes in them with representational faithfulness
 - errors in recording water accounting transactions.
58. In essence, the unaccounted-for difference is required to 'balance' the measured or observed water assets in the Statement of Water Assets and Water Liabilities with their volumes derived using the Statement of Changes in Water Assets and Water Liabilities.

³⁵ For example, ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report*.

³⁶ For example, ASA 580 *Written Representations* and ASAE 3000, paragraph 64.

³⁷ ED AWAS 1, paragraph 6.

³⁸ ED AWAS 1, paragraphs 108 and 116.

³⁹ *Associated Model Reports for the Exposure Draft of Australian Water Accounting Standard 1*, Water Accounting Standards Board, 2009. For example, see Model Water Accounting Report for Wallaroo Water System, note disclosures 1 and 3b.



59. Given the nature of the unaccounted-for difference, it is expected that the assurance practitioner will effectively be assessing the risk of material misstatement of this line item by performing assurance procedures on the other aspects of the GPWAR. Consequently, specific procedures for this line item may not be effective.

Questions

- Q14. Would the assurance practitioner need to perform any specific or additional procedures in relation to the unaccounted-for difference?
- Q15. Are there any other items or elements within the components of a GPWAR that present complexities in terms of assurance?

Levels of assurance

60. ED AWAS 1 paragraph 7 requires the GPWAR to contain an assurance report⁴⁰ and paragraph 167 requires the assurance report to include an explicit statement of whether the GPWAR is presented fairly in accordance with AWAS 1, although the level of assurance required is not prescribed.
61. Based on discussions with stakeholders to date, there appears to be a commonly held view that reasonable assurance is preferable to limited assurance for GPWAR. This view takes into account the relative immaturity of general purpose water accounting and the evolving nature of the systems and processes in place currently to measure, record and report water assets and liabilities.
62. The view has also been raised that such a high level of assurance may not be necessary in all cases to meet the needs of GPWAR users. Rather, in some circumstances, the application of a lower level of assurance may sufficiently cover the requirements for users of a particular GPWAR.

Reasonable assurance and limited assurance

63. Existing AUASB auditing and assurance standards provide for two levels of assurance engagements:
- (a) reasonable assurance engagements; and
 - (b) limited assurance engagements.⁴¹

The type of engagement performed will depend on the needs of intended users, may be required by legislation and will be agreed with the engaging party.

64. Both types of engagement involve the essential stages that are required in any assurance engagement (such as engagement acceptance, planning, designing and conducting procedures to address the assessed risks of material misstatement, forming a conclusion on the basis of the evidence obtained and reporting). However, the nature, timing and extent of procedures may vary depending on whether the engagement is a reasonable or limited assurance engagement. In practical terms, the differences are principally in the

⁴⁰ ED AWAS 1 currently uses the term 'Assurance Statement' to refer to the assurance conclusion within the assurance report.

⁴¹ See ASAE 3000, paragraphs 5(a) and 5(b) for definitions of *reasonable assurance engagements* and *limited assurance engagements*.



work effort required to achieve differing levels of assurance, and the form of reporting provided, by the assurance practitioner to meet the needs of intended users and the engaging party.

- 65. This consultation paper does not discuss in detail the differences between assurance procedures used in limited and reasonable assurance engagements, since their further consideration is dependent in part on feedback received on related matters discussed in this paper. If appropriate, this matter will be raised in the exposure draft of the proposed assurance standard at a later stage in this project.
- 66. Some of the key differences between reasonable assurance engagements and limited assurance engagements are summarised in Table 3.

Table 3: Differences between reasonable assurance engagements and limited assurance engagements

Reasonable assurance engagement	Limited assurance engagement
A high, but not absolute, level of assurance	A lower level of assurance relative to reasonable assurance
Commonly called an audit	Commonly called a review
The assurance practitioner reduces engagement risk ⁴² to an acceptably low level in the circumstances of the engagement as the basis for the practitioner's conclusion	The assurance practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement
Greater reduction in assurance engagement risk	Lesser reduction in assurance engagement risk
<p>More extensive assurance procedures are required ordinarily, as the assurance practitioner seeks to obtain sufficient, appropriate audit evidence to support a reasonable assurance conclusion. These procedures may involve, for example:</p> <ul style="list-style-type: none"> • inspection • observation • confirmation • re-calculation • tests of controls • enquiry • analytical procedures 	<p>The assurance procedures performed are deliberately limited relative to a reasonable assurance engagement but are planned to obtain a level of assurance that is, in the practitioner's professional judgement, meaningful to intended users. They may involve, for example:</p> <ul style="list-style-type: none"> • enquiry • analytical procedures

⁴² Assurance engagement risk is the risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated.



Reasonable assurance engagement	Limited assurance engagement
<p>The assurance practitioner's conclusion is expressed in the form of an opinion, for example:</p> <p><i>In our opinion, the GPWAR for the period ended 31 December 20X1 is presented fairly, in all material respects, in accordance with AWAS 1.</i></p>	<p>The assurance practitioner's conclusion is expressed in a form that conveys a level of 'limited assurance' commensurate with the assurance procedures performed, for example:</p> <p><i>Based on the procedures performed, nothing has come to our attention that causes us to believe that the GPWAR for the period ended 31 December 20X1 is not presented fairly, in all material respects, in accordance with AWAS 1.</i></p>
<p>More costly ordinarily, due to the greater work effort required</p>	<p>Less costly ordinarily, as less work effort normally required</p>

Questions

- Q16. Should the proposed assurance standard allow for both reasonable and limited assurance?
- Q17. If you consider that limited assurance should be covered in the proposed standard for assurance engagements on GPWAR, please identify the circumstances in which limited assurance might be appropriate.

Multi-layered assurance

67. A suggestion has been made that the assurance standard should provide for multi-layered assurance reports. Multi-layered assurance refers to different levels of assurance for different parts of a single GPWAR.
68. The concept of multi-layered assurance means that reasonable assurance could be provided on parts of the GPWAR (for example, on the Statement of Water Assets and Water Liabilities, Statement of Changes in Water Assets and Water Liabilities, Statement of Physical Water Flows and the Note Disclosures other than the Note on Future Prospects), while limited assurance could be provided on other parts of the GPWAR (for example, the Accountability Statement and the Note on Future Prospects). The main reason identified for this suggestion has been the perceived difficulty in assuring particular aspects of the GPWAR involving significant uncertainty, such as:
- the movement of water in, or to and from, groundwater
 - the likelihood of future volumes of water runoff
 - the precise location, timing and causes of leakages from water distribution systems.
69. Alternatively, the concept of single-layered assurance means that the assurance report must provide a clear and unequivocal statement regarding the fair presentation of the GPWAR in its entirety in accordance with AWAS 1.



70. Existing AUASB standards deal only with single-layered assurance reports, although they do not specifically preclude multi-layered assurance reports which may be used in other regulatory reporting regimes.⁴³
71. The WASB and the AUASB consider that a single-layered assurance report on a GPWAR may be preferable given that:
- (a) Users and/or the engaging party are more likely to seek a single level of assurance on a GPWAR.
 - (b) There is a risk that users of the GPWAR will be confused about the level of assurance being provided when there is multi-layered assurance.
 - (c) Situations involving significant uncertainty arise in many audit and assurance engagements and are not reason for multi-layered assurance. Standards exist,⁴⁴ or can be developed for dealing with uncertainty, the use of assumptions, estimates based on prior period events and other areas where judgement is required. For example, key requirements in the proposed assurance standard might include:
 - The assurance practitioner must obtain sufficient evidence and form judgements about:*
 - (i) *whether the assumptions used in the quantification of elements are reasonable;*
 - (ii) *whether the information is properly prepared based on the assumptions; and*
 - (iii) *whether the information is presented and disclosed in accordance with AWAS 1.*
 - (d) Multi-layered assurance effectively involves two sub-engagements:
 - (i) one sub-engagement to provide reasonable assurance on certain element/s or component/s of the GPWAR
 - (ii) a second sub-engagement to provide limited assurance on other element/s or component/s of the same GPWAR.
- This situation results in differing processes for each sub-engagement. For example:
- (i) the terms of engagement would be different for reasonable and limited assurance, including statements about the responsibilities of management and the assurance practitioner in each case
 - (ii) the procedures performed would be different for reasonable and limited assurance
 - (iii) the assurance report would need to document the responsibilities of the assurance practitioner and the assurance conclusions for both reasonable and limited assurance
 - (iv) the assurance practitioner would need to maintain separate and differing documentation for each sub-engagement

⁴³ For example, see Australian Prudential Regulation Authority (APRA) Prudential Standard LPS 310 *Audit and Related Matters*.

⁴⁴ For example, ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.



- (e) There is a possibility that multi-layered assurance would not result in less cost to the engaging party, due to the additional administration, planning, reporting and documentation involved.
- (f) Inherent limitations exist in any assurance engagement, including assurance engagements on GPWAR, and are not a reason to permit multi-layered assurance reports. For example, the assurance practitioner exercises professional judgement in considering the completeness of information provided by the report preparer, the risk of fraud, the limitations of testing, sampling and other means used to examine populations of information, concentrating effort on areas of highest risk, and so on.⁴⁵

Questions

Q18. Do you agree that single-layered assurance reports are preferable for GPWAR? Please provide reasons to support your views.

Content of the assurance report

- 72. AUASB standards contain requirements and guidance relating to the content of audit and assurance reports, including illustrative reports,⁴⁶ which aim to promote consistency in assurance reporting.
- 73. For the same reason, the proposed standard for assurance engagements on GPWAR is likely to include similar requirements and guidance relating to the content of an assurance report on a GPWAR. For example, the minimum required content for the assurance report may include:
 - (a) a title that clearly indicates the report is an independent assurance report
 - (b) the addressee of the assurance report⁴⁷
 - (c) identification of the water report entity and the GPWAR, including the period it covers
 - (d) identification of the title of each component of the GPWAR that has been assured, including the date or period covered by each component, where applicable
 - (e) reference to the summary of significant water accounting policies and other explanatory information
 - (f) a description of the responsibilities of the management group accountable for preparing and presenting the GPWAR, including:
 - (i) identification of the applicable criteria
 - (ii) a statement identifying the uncertainties relevant to water quantification
 - (iii) where appropriate, a description of any significant, inherent limitation(s) associated with the evaluation or quantification of the water assets and water liabilities against the criteria

⁴⁵ ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

⁴⁶ For example, ASA 700, ASAE 3000 and other AUASB standards.

⁴⁷ The 'addressee of the assurance report' is the party who has engaged the assurance practitioner to perform the assurance engagement, sometimes referred to as the 'engaging party'. The assurance report is included as part of the GPWAR as a whole and is available for all users of that GPWAR.



- (g) a description of the assurance practitioner's responsibility, including:
 - (i) a statement regarding the assurance practitioner's independence
 - (ii) a statement regarding responsibility to express a conclusion on the GPWAR based on the assurance engagement
 - (iii) a statement that the assurance engagement was performed in accordance with the (proposed) standard on Assurance Engagements on General Purpose Water Accounting Reports
 - (iv) a summary of the work performed
 - (h) the assurance conclusion,⁴⁸ which expresses the assurance practitioner's conclusion about whether the GPWAR is presented fairly, in all material respects, in accordance with AWAS 1
 - (i) if the assurance practitioner expresses a conclusion that is modified, a clear description of the reasons for the modification
 - (j) the assurance practitioner's signature
 - (k) the date of the assurance report
 - (l) the location in the jurisdiction where the assurance practitioner practices.
74. The assurance standard may include illustrative assurance reports as appendices, to assist assurance practitioners in complying with the requirements of the standard.

Questions

- Q19. Do you agree that the proposed standard for assurance engagements on GPWAR should include requirements and guidance relating to the content of the assurance report to promote consistency in assurance reporting?
- Q20. Do you consider that illustrative assurance reports would be helpful and should be included in the proposed assurance standard?

The assurance practitioner's conclusion

75. Existing auditing and assurance standards provide for unmodified and modified assurance conclusions.⁴⁹
76. The assurance practitioner expresses an unmodified conclusion when the practitioner concludes:
- (a) In the case of a reasonable assurance engagement, that the GPWAR is presented fairly in all material respects in accordance with AWAS 1. This conclusion is likely to be expressed in the form of an opinion, for example:

In our opinion, the GPWAR for the period ended 31 December 20X1 is presented fairly, in all material respects, in accordance with AWAS 1.

⁴⁸ The different types of assurance conclusions are discussed in paragraphs 75-88 of this Consultation Paper.
⁴⁹ For example, see ASA 700, ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*, and ASAE 3000.



- (b) In the case of a limited assurance engagement, if permitted,⁵⁰ that based on the procedures performed, nothing has come to the attention of the practitioner that causes the practitioner to believe that the GPWAR is not presented fairly, in all material respects, in accordance with AWAS 1. The conclusion is likely to be expressed in the form of a conclusion that conveys a level of limited assurance commensurate with the assurance procedures performed, for example:

Based on the procedures performed, as described in this report, nothing has come to our attention that causes us to believe that the GPWAR for the period ended 31 December 20X1 is not presented fairly, in all material respects, in accordance with AWAS 1.

77. The assurance practitioner modifies the conclusion when the following circumstances exist and, in the practitioner's professional judgement, the effect of the matter is or may be material:
- (a) The practitioner concludes, based on the evidence obtained, that the GPWAR as a whole is not prepared in accordance with AWAS 1, that is, the GPWAR is not free from material misstatement; or
 - (b) The practitioner is unable to obtain sufficient appropriate evidence to conclude that the GPWAR as a whole is free from material misstatement. In this case, a scope limitation exists and the practitioner must express a qualified conclusion, disclaim a conclusion, or withdraw from the engagement, where withdrawal is possible under applicable laws and regulations.
78. There are three types of modified assurance conclusions:⁵¹
- (a) a qualified conclusion
 - (b) an adverse conclusion
 - (c) a disclaimer of conclusion.
79. The decision regarding which type of modified conclusion is appropriate depends upon:
- (a) The nature of the matter giving rise to the modification, that is, whether the GPWAR is materially misstated, or in the case of a scope limitation, may be materially misstated; and
 - (b) The practitioner's judgement about the pervasiveness of the effects or possible effects of the matter on the GPWAR.

⁵⁰ ED AWAS 1, paragraph 167 is worded currently as if the assurance engagement is a reasonable assurance engagement. See paragraphs 60-66 of this Consultation Paper for a discussion of *Levels of Assurance*.

⁵¹ Adapted from ASA 705.



Qualified conclusion

80. A qualified conclusion is expressed when:
- (a) The assurance practitioner, having obtained sufficient appropriate evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the GPWAR; or
 - (b) The practitioner is unable to obtain sufficient appropriate evidence on which to base the conclusion, but the practitioner concludes that the possible effects on the GPWAR of undetected misstatements, if any, could be material but not pervasive.

81. An example of the wording for a qualified conclusion due to a material misstatement in a GPWAR in a reasonable assurance engagement is:

In our opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion paragraph, the GPWAR for the period ended 31 December 20X1 is presented fairly, in all material respects, in accordance with AWAS 1.

82. An example of the wording for a qualified conclusion due to a material misstatement in a GPWAR in a limited assurance engagement is:

Based on our review, except for the effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the GPWAR for the period ended 31 December 20X1 is not presented fairly, in all material respects, in accordance with AWAS 1.

Adverse conclusion

83. An adverse conclusion is expressed when the assurance practitioner, having obtained sufficient appropriate evidence, concludes that the misstatements, individually or in the aggregate, are both material and pervasive to the GPWAR.

84. An example of the wording for an adverse conclusion due to a material misstatement in a GPWAR in a reasonable assurance engagement is:

In our opinion, because of the significance of the matter(s) discussed in the Basis for Adverse Opinion paragraph, the GPWAR for the period ended 31 December 20X1 is not presented fairly, in all material respects, in accordance with AWAS 1.

85. An example of the wording for an adverse conclusion due to a material misstatement in a GPWAR in a limited assurance engagement is:

Because of the significance of the matter(s) described in the Basis



for Adverse Conclusion paragraph, the GPWAR for the period ended 31 December 20X1 is not presented fairly, in all material respects, in accordance with AWAS 1.

Disclaimer of conclusion

86. The assurance practitioner disclaims a conclusion when the practitioner is unable to obtain sufficient appropriate evidence on which to base the conclusion, and the practitioner concludes that the possible effects on the GPWAR of undetected misstatements, if any, could be both material and pervasive.
87. An example of the wording for a disclaimer of conclusion due to the assurance practitioner's inability to obtain sufficient appropriate evidence in a reasonable assurance engagement is:

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate evidence to provide a basis for an assurance conclusion. Accordingly, we do not express an opinion on the GPWAR.

88. An example of the wording for a disclaimer of conclusion due to the assurance practitioner's inability to obtain sufficient appropriate evidence in a limited assurance engagement is:

Because of the significance of the matter described in the Basis for Disclaimer of Conclusion paragraph, we have not been able to obtain sufficient appropriate evidence to provide a basis for an assurance conclusion. Accordingly, we do not express a conclusion on the GPWAR.

Questions

- Q21. Should the proposed assurance standard include requirements and guidance on the different types of assurance conclusions that may be included in an assurance report on a GPWAR?
- Q22. Are the types of assurance conclusions discussed in this consultation paper relevant to assurance engagements on GPWAR?

Emphasis of Matter and Other Matter paragraphs in the assurance report

89. In addition to the assurance conclusion, the assurance practitioner may consider it necessary to draw users' attention to additional matters in the assurance report. This may include:
- (a) An Emphasis of Matter paragraph—this is a paragraph included in the assurance report that refers to a matter appropriately presented or disclosed in a GPWAR that, in the assurance practitioner's judgement is of such importance that it is fundamental to users' understanding of the GPWAR
 - (b) An Other Matter paragraph—this is a paragraph included in the assurance report that refers to a matter other than those presented or disclosed in a GPWAR that,



in the assurance practitioner's judgement is relevant to users' understanding of the assurance engagement, the assurance practitioner's responsibilities or the assurance report.

90. The use of Emphasis of Matter and Other Matter paragraphs is limited, as described in paragraphs 89(a) and (b), as a widespread use of such additional paragraphs would diminish the effectiveness of the assurance practitioner's communication of such matters.
91. The inclusion of Emphasis of Matter and Other Matter paragraphs in an assurance report, does not affect the assurance practitioner's opinion.

Questions

- Q23. Should the proposed assurance standard include requirements and guidance on Emphasis of Matter and Other Matter paragraphs in the assurance report?
- Q24. Please provide examples of matters that may be included in an Emphasis of Matter paragraph in an assurance report on a GPWAR.
- Q25. Please provide examples of matters that may be included in an Other Matter paragraph in an assurance report on a GPWAR.

Materiality

92. ED AWAS 1 provides direction on materiality⁵² for the preparer of the GPWAR, which is similar to the framework provided to preparers in financial reporting.⁵³ Information is material if its omission from, or misstatement in, a GPWAR could influence the decisions of users of that report. Materiality influences:
 - (a) whether an item or an aggregate of items is required to be recognised, quantified, presented or disclosed in a GPWAR
 - (b) the margin of error that is acceptable in the volume attributed to an item or an aggregate of items
 - (c) the degree of precision required in estimating the volume of an item or an aggregate of items.
93. ED AWAS 1 states that it is not possible to specify a uniform quantitative threshold at which information becomes material. However, both the nature and volume of an item are important in assessing materiality.
94. Materiality in water accounting is therefore a matter of judgement influenced by the characteristics of the water report entity and the information needs of users.
95. Similar to the GPWAR preparer, the assurance practitioner makes judgements about materiality in the light of surrounding circumstances. Materiality may be influenced by the practitioner's perception of the information needs of users of the GPWAR, and by the size or nature of a misstatement, or a combination of both.⁵⁴

⁵² ED AWAS 1, paragraphs 15-19.

⁵³ *Framework for the Presentation of Financial Statements*, AASB, paragraphs 29-30 and AASB 101 *Presentation of Financial Statements*, paragraphs 29-31.

⁵⁴ The principles for materiality in assurance engagements on GPWAR discussed in paragraphs 92-100 of this Consultation Paper are adapted from ASA 320 *Materiality in Planning and Performing and Audit*, having regard to the requirements of ED AWAS 1.



96. The assurance practitioner may assume that users:
- (a) have a reasonable knowledge of water management and other water related activities and a willingness to study the information in the GPWAR with reasonable diligence
 - (b) understand that the GPWAR is prepared, presented and assured to appropriate levels of materiality
 - (c) recognise the uncertainties inherent in the measurement of volumes based on estimates, judgement and the consideration of future events
 - (d) make reasonable decisions on the basis of information in the GPWAR.
97. In planning the assurance engagement the assurance practitioner would determine materiality for the GPWAR as a whole and may determine a different level of materiality for one or more particular items, aggregate of items or disclosures that the practitioner considers warrant specific consideration in the circumstances of the water report entity. The assurance practitioner would also determine materiality for assessing the risks of material misstatement and determining the nature, timing and extent of assurance procedures.
98. The assurance practitioner would revise materiality throughout the engagement.
99. The assurance practitioner would consider all uncorrected misstatements accumulated during the engagement, regardless of materiality, and have regard to both the size and nature of misstatements when evaluating their effect on the GPWAR. The assurance practitioner could also seek a representation from the responsible party that the effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the GPWAR.
100. Given that principles regarding materiality could be applied to water accounting and reporting, it is proposed that it will not be appropriate, or necessary, to prescribe a numeric level of materiality in the assurance standard and that assurance practitioners should use their professional judgement to determine materiality such that engagement risk is reduced to an acceptably low level in the circumstances.

Questions

- Q26. Do you agree that it is appropriate to use a principles-based approach, rather than prescribing a numeric level for materiality in the proposed standard for assurance engagements on GPWAR?

Assurance procedures

101. The issue arises as to whether the procedures used in financial statement audits and reviews, and other assurance engagements, can be applied to assurance engagements on GPWAR, whether any specific considerations are required for GPWAR and what other procedures, if any, may be used.



102. In a GPWAR engagement, the assurance practitioner seeks to determine whether the GPWAR is fairly presented (in all material respects) in accordance with AWAS 1. The assurance practitioner's objective is to obtain sufficient appropriate evidence through performing procedures to support either a reasonable or limited level of assurance, in accordance with the terms of the engagement.
103. As in any assurance engagement, the assurance practitioner begins by identifying and assessing the risks of material misstatement, through understanding the water report entity and its management group and their environments, including the internal control of the management group and report preparer.⁵⁵ Having identified and assessed risks, the assurance practitioner designs and performs procedures that are responsive to assessed risks, with a view to obtaining assurance (either reasonable or limited) about whether the GPWAR is fairly presented in accordance with AWAS 1.
104. The assurance practitioner uses professional judgement to determine the nature, timing and extent of procedures to be performed in both:
- (a) understanding the water report entity and its management group and their environments, and
 - (b) in responding to assessed risks and performing further procedures.

As a result, assurance procedures will vary between engagements. For example, an assurance engagement for the current period will be informed by previous assurance engagements for the water report entity.

105. Assurance engagements relating to financial statements would ordinarily include a combination of some, or all, of the following procedures:
- inspection
 - observation
 - examination
 - confirmation
 - recalculation
 - re-performance
 - analytical procedures
 - enquiry
 - if the practitioner intends to rely on the control systems of the management group and report preparer, tests of controls to obtain sufficient evidence as to the design and operating effectiveness of relevant controls.

For the purposes of this Paper, these procedures are referred to as 'traditional' assurance procedures.

⁵⁵ Internal control is the process designed, implemented and maintained by those charged with governance, management and other personnel to provide assurance about the achievement of the entity's objectives with regard to reliability of water information reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. [adapted from ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 4(c)].



106. It has been suggested that some of these procedures may not translate readily to assurance engagements on GPWAR. Examples of potential issues identified include:
- (a) Analytical procedures—the use of comparisons and relationships to assess whether account balances and other disclosures appear reasonable, may be difficult given that water accounting is a new discipline that is not yet widely used. This means there may be a lack of industry information, making it difficult to compare water report entities, and little prior year information available to perform analysis for a single water report entity.
 - (b) Physical examination—a direct means of verifying that a water asset actually exists may be difficult given that:
 - (i) surface water assets may be spread over a very large geographic area
 - (ii) groundwater assets cannot be physically examined
 - (iii) movements of water may not be observable (for example, evaporation).
 - (c) Re-performance—the re-performance of a sample of the calculations included in a GPWAR, or in the information supporting a GPWAR, may be difficult in certain circumstances. For example:
 - (i) calculations may be based on hydrological models, which are often site-specific, and therefore not transferable to other sites being considered
 - (ii) hydrological models often require large amounts of data and computing power to process that data
 - (iii) the pool of skilled specialists, such as modellers may be small at the present time.
107. As mentioned, assurance standards ordinarily allow for the use of professional judgement by the assurance practitioner in the selection of assurance procedures, based on the circumstances of the engagement. Where certain assurance procedures do not provide sufficient appropriate evidence, the assurance practitioner may use alternative approaches. For example, in the examples cited above:
- (a) Analytical procedures may be used for other purposes in the assurance engagement, for example, to highlight specific areas of interest, and to test for completeness. Alternative procedures to determine whether account balances and other disclosures appear reasonable may include examining supporting documentation for items that appear unreasonable, making enquiries of the report preparer, and comparing recorded balances and disclosures with expected balances and disclosures based on an understanding of the water report entity and its management group and their environments.
 - (b) Where physical examination of water assets is not possible, existence may be confirmed by:
 - (i) for surface water assets spread over large geographic areas—by observing the collection and records of hydrological data relating to those water assets



- (ii) for water movements that are not observable, such as evaporation—by gaining an appreciation of the models used to quantify these volumes, re-calculation, where possible, and making comparisons with known evaporation measurements
 - (c) Where re-performance is difficult due to the nature of the calculation, it may be possible to observe the calculation activity, consider the reasonableness of key assumptions used in the model and make enquiries of the preparer, to ascertain their knowledge, skill level and objectivity in building the model and performing the calculation.
108. In considering alternative procedures, the assurance practitioner considers the range of procedures available including enquiry, written representations, walkthrough of processes, examination of documents, and different types of analytical procedures. Where necessary, the assurance practitioner may use an external expert to assist in parts of the engagement. In certain circumstances, the assurance practitioner may also refer to the work of internal audit, quality assurance, quality control or peer review.
109. However, where the assurance practitioner is unable to obtain sufficient appropriate evidence through alternative procedures, a scope limitation exists and the practitioner will express a qualified assurance conclusion, disclaim a conclusion or withdraw from the engagement, where permitted.

Questions

- Q27. Are there any specific considerations necessary in the application of 'traditional' assurance procedures to assurance engagements on GPWAR?
- Q28. Are there any other procedures that have not been identified that you consider would be applicable to assurance engagements on GPWAR?

Using the work of experts

110. Assurance practitioners may refer to the work of experts in the course of assurance engagements on GPWAR. Experts may be either:
- (a) an assurance practitioner's expert—used by the assurance practitioner⁵⁶ to assist in obtaining sufficient appropriate evidence about elements of the GPWAR
 - (b) a management's expert—used by the management group⁵⁷ accountable for preparing the GPWAR to provide information to assist in preparing the GPWAR.

Assurance practitioner's expert

111. An assurance practitioner's expert is an individual or organisation possessing expertise in a field other than the practitioner's field of expertise, whose work is used by the assurance practitioner to assist the assurance practitioner in obtaining sufficient appropriate evidence.
112. An assurance practitioner's expert can be either an internal expert or an external expert.

⁵⁶ For example, see ASA 620 *Using the Work of an Auditor's Expert*.

⁵⁷ For example, see ASA 500, paragraphs 8 and A34-A48.



113. Internal experts, who are employed by the assurance practitioner's firm, are regarded as part of the assurance engagement team and are therefore subject to the same ethical requirements, including professional competence and independence, as other members of the firm.
114. External experts are not employed by the assurance practitioner's firm and are therefore not necessarily subject to the same, or similar, ethical requirements.
115. It is proposed in paragraph 23 of this consultation paper that the lead assurance practitioner should be required to have skills and competence in both assurance and water quantification and reporting, and should ensure that the engagement team *and any external experts* collectively have professional competencies in both fields. This reference to 'external experts' recognises that the engagement team may not possess all the skills, knowledge, experience and competencies required and may therefore need to seek the input of an external expert.
116. It may be appropriate to include requirements and guidance in the proposed assurance standard relating to the practitioner's use of the work of experts.
117. For example, it may be important to note that the assurance practitioner has sole responsibility for the assurance conclusion and that responsibility is not reduced by the practitioner's use of the work of an expert.
118. Other requirements may relate to the appropriateness of using the work of an expert to assist in obtaining sufficient appropriate evidence to support the assurance conclusion. For example, the assurance practitioner may be required to determine whether the expert has the necessary competence, capability and objectivity for the practitioner's purposes and whether the expert can provide information that is reliable and objective.

Questions

- Q29. Should the proposed assurance standard include requirements and guidance relating to using the work of assurance practitioners' experts?
- Q30. Are there any special considerations that are required when the assurance practitioner uses the work of an assurance practitioner's expert in an assurance engagement of GPWAR?

Management's expert

119. A management's expert is an individual or organisation, engaged by the management group accountable for preparing the GPWAR, who possesses expertise in a field other than water accounting or assurance, whose work in that field is used to assist in preparing the GPWAR.
120. Where information to be used as evidence has been prepared by a management's expert, the assurance practitioner would ordinarily be required to obtain an understanding of the work of that expert, the appropriateness of that expert's work as audit evidence, and the competence, capabilities and objectivity of that expert.



Questions

- Q31. Should the proposed assurance standard include requirements and guidance relating to using the work of management's experts?
- Q32. Are there any special considerations that are required when the assurance practitioner uses the work of a management's expert in an assurance engagement on GPWAR?

Using the work of internal audit

121. Australian auditing standards provide for the use of the work of internal audit by the auditor⁵⁸ in certain circumstances. In general, the entity's internal audit function is likely to be relevant to the financial report audit if the nature of the internal audit function's responsibilities and activities are related to the entity's financial reporting processes. Before relying on the work of internal audit, the auditor must assess whether the internal auditor has sufficient objectivity and technical competence, and demonstrates due professional care in the conduct of internal audit work. Using the work of internal audit may allow the auditor to modify the nature, timing or extent of audit procedures that would otherwise have been performed. However, internal auditors are not independent of the entity and, irrespective of their autonomy and objectivity, the external auditor has sole responsibility for the audit opinion expressed on the financial report.
122. In water accounting, some water report entities may have an internal audit function involved in reviewing the processes and controls in place for the preparation of the GPWAR.

Questions

- Q33. Are you aware of any internal audit functions that perform work related to the water accounting function of a management group likely to be a GPWAR preparer and, if so, should the assurance standard provide for the use of the work of internal audit by the assurance practitioner?

Quality assurance and quality control

123. Quality assurance (QA) and quality control (QC) processes, or peer review, for the double-checking of data used in the GPWAR, may be in place in relation to some water report entities. Similar to an internal audit function, those employed in QA/QC, or peer review, would not be independent of the management group of the water report entity. The assurance practitioner is therefore unlikely to rely on the work of QA/QC, or peer review, as such, but may consider these functions in terms of the management group's internal control structure.
124. The assurance practitioner would ordinarily determine whether QA/QC, or peer review, controls are relevant to the preparation of the GPWAR and, if so, test whether the controls are operating effectively. For example, the assurance practitioner may:
- (a) enquire about the nature and timing of QA/QC, or peer review, processes, and the competence of the personnel who performed them
 - (b) review documents evidencing the performance of QA/QC, or peer review, processes
 - (c) re-perform a sample of QA/QC, or peer review, processes.

⁵⁸ ASA 610 *Using the Work of Internal Auditors*.



Questions

- Q34. Are you aware of any QA/QC, or peer review, functions undertaken that are related to the water accounting function of a management group likely to be a GPWAR preparer?
- Q35. What impact, if any, will the existence of QA/QC, or peer review, functions have on assurance engagements on GPWAR?

Using the work of component assurance practitioners

125. Existing AUASB standards cover the special considerations required in group audits where the group auditor may use component auditors to perform work on component entities within the group entity.⁵⁹ For example, the group auditor is required to be satisfied that those performing the group audit engagement, including component auditors, collectively have the appropriate skills, knowledge and experience.
126. It is possible that a water report entity may have one or more management groups responsible for the day-to-day operational management of the water resources and a separate management group responsible for preparing the GPWAR. This may occur, for example, with a regulated river system where several water managers are responsible for day-to-day operations of sections of the river system and a government regulator is responsible for preparation of the GPWAR for the entire river system. This arrangement may result in a group GPWAR being compiled from information relating to each of the component entities within the group.
127. Where an assurance engagement is undertaken on a group GPWAR, the group engagement team may request component assurance practitioners to perform assurance work on component water entities or on components of water systems within a water report entity. In such cases the group assurance team is responsible for establishing the overall group assurance strategy, communicating with component assurance practitioners, performing work on the group GPWAR, and evaluating conclusions drawn from the evidence obtained as the basis for forming an opinion on the group GPWAR.

Questions

- Q36. Are you aware of any group water report entities involving more than one component entity or of a water report entity involving a number of components of a water system? If so, please provide details.
- Q37. Should the proposed standard for assurance engagements on GPWAR provide requirements and guidance for group assurance practitioners when using the work of component assurance practitioners?

⁵⁹ See Auditing Standard ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)*.



Future prospects

128. Users of a GPWAR wish to know whether the entity's water assets are likely to be sufficient to meet its water liabilities and future water commitments expected to be settled now and within 12 months.
129. ED AWAS 1 requires information to be disclosed in the notes to the GPWAR to assist users to understand the future prospects of the water report entity for the 12 month period from the reporting date.⁶⁰ In some circumstances it may be appropriate to also disclose information that enables users to understand the future prospects of the water report entity beyond 12 months.⁶¹
130. All GPWAR are required to include information on future prospects, irrespective of the nature of the operations of the water report entity, including, for example:
- regulated river systems
 - hydro power organisations
 - urban utility supply systems
 - environmental water rights holders.
131. The disclosures regarding the future prospects of a water report entity are concerned with:
- (a) the surplus (or deficit) of water assets currently available over both water liabilities and future water commitments expected to be settled within 12 months of the reporting date
 - (b) the water inflows, and future water rights, expected within 12 months to either bolster the surplus, or fund the deficit, of water assets.
- This information is required to be provided in respect of various climatic conditions, taking into account the potential for variability in weather patterns.
132. In compiling the Future Prospects note, the report preparer makes judgements, at a particular point in time, about both water liabilities and future water commitments expected to be settled within 12 months, and water inflows and future water rights expected within 12 months, which are dependent on inherently uncertain future events or conditions (such as, precipitation, drought and water usage levels). The following factors are relevant to such judgements:
- (a) The degree of uncertainty associated with future events or conditions is influenced by the time period involved. Uncertainty may be less for events and conditions expected to occur within 12 months and greater for events and conditions expected to occur after 12 months.
 - (b) Judgements about the future are based on information available at the time the judgements are made. Subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made.

⁶⁰ ED AWAS 1, paragraphs 140-146; Implementation Guidance B; Basis for Conclusions, paragraphs B71-B76, B101-B104 and B126-B129; and *Associated Model Reports for the Exposure Draft of Australian Water Accounting Standard 1*.

⁶¹ ED AWAS 1, paragraph 146.



133. Based on the Model Reports⁶² provided with ED AWAS 1, the estimates in the Future Prospects note for both water liabilities and future water commitments expected to be settled within 12 months, and water inflows and future water rights expected within 12 months, will generally be based on actual, recorded, hydrological information from previous years. Prior years' information is then applied to the future 12 month period according to different climatic conditions, for example, dry, median or wet conditions.
134. In relation to the proposed standard for assurance engagements on GPWAR, questions arise regarding the assurance practitioner's responsibilities in relation to the information in the Future Prospects note. It is proposed that, based on the information contained in the GPWAR, the assurance practitioner would seek to determine whether a material uncertainty exists related to events or conditions, now and into the future, that may cast doubt on the water report entity's ability to continue to fulfil its purpose. The assurance practitioner would assess the report preparer's assumptions, calculations and disclosures relating to future prospects, and then determine the implications, if any, for the assurance report, including the assurance conclusion.

Questions

- Q38. What should be the assurance practitioner's responsibilities regarding information included in the Future Prospects note in a GPWAR?
- Q39. Does the information in the Future Prospects note in a GPWAR present any challenges for assurance practitioners? If so, please provide details.

Subsequent events

135. In auditing financial reports, the auditor has responsibilities in relation to information about subsequent events, that is, events occurring between the date of the financial report and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report.
136. Similarly, in general purpose water accounting, it is proposed that assurance practitioners will have responsibilities in relation to events occurring between the date of the GPWAR and the date of the assurance report, and facts that become known to the assurance practitioner after the date of the assurance report that, had they been known to the practitioner at that date, may have caused the practitioner to amend the assurance report. Users need to know that the assurance practitioner has considered subsequent events, as such events have the potential to influence the decisions that users make on the basis of the GPWAR.

⁶² Associated Model Reports for the Exposure Draft of Australian Water Accounting Standard 1.



137. The issue is whether the proposed assurance standard for GPWAR should include requirements and guidance regarding subsequent events, such as the requirements in ASAE 3000 and Australian Auditing Standard ASA 560 *Subsequent Events*. For example, the assurance practitioner could use the following procedures in considering subsequent events:
- (a) obtain an understanding of the process used by the report preparer to identify adjusting events and make the necessary adjustments
 - (b) enquire of relevant personnel whether any adjusting events have been identified, and whether adjustments have been made
 - (c) review minutes of meetings, file notes, correspondence or other documentation discussing adjusting events, and other events, after the date of the GPWAR
 - (d) consider other factors that may influence the GPWAR after the date of the report
 - (e) obtain management representations regarding subsequent events.
138. ED AWAS 1 provides principles for report preparers relating to events after the reporting period,⁶³ however, it does not provide specific examples of *adjusting events*. While it is possible that feedback on ED AWAS 1 will provide information on this topic, the question was not specifically asked and respondents are now invited to comment on adjusting events.

Questions

- Q40. Should the proposed assurance standard for GPWAR include requirements regarding subsequent events?
- Q41. Please provide examples of *adjusting events after the reporting period*, as defined in ED AWAS 1, together with any assurance implications arising from them.

Frequency of assurance

139. ED AWAS 1 requires that GPWAR shall be prepared for a water report entity no less frequently than annually.⁶⁴
140. The issue has been raised as to whether biennial or triennial assurance engagements could be undertaken on GPWAR in order to reduce the cost of compliance for water report entities. A relevant example of this may be the performance audits for urban water utilities performed under the requirements of the National Performance Framework issued by the National Water Commission and the Water Services Association of Australia (May 2010). This framework provides for the assurance of selected indicators of the National Performance Report on a three-yearly cycle.

⁶³ ED AWAS 1, paragraphs 39-42 and 132-135. These are similar to the requirements in AASB 110 *Events after the Reporting Period*.

⁶⁴ ED AWAS 1, paragraph 22.



141. While cost is an important factor, the WASB and AUASB agree that issues arise if assurance is provided at intervals that are different from reported information. For example:
- (a) in order for general purpose water accounting to provide meaningful, comparable and reliable information for users, the frequency of assurance may need to be aligned with the frequency of reporting
 - (b) the engaging party, preparers and other users need to be aware that where assurance is provided on a GPWAR that includes prior period information that has not been assured, the assurance conclusion will be modified
 - (c) GPWAR are prepared for a range of users who are unable to command the preparation of the reports to satisfy their needs. Users may be more likely to want assurance on a GPWAR each year it is prepared.
142. A further question is whether limited assurance engagements may be undertaken in some years and reasonable assurance engagements in other years in order to reduce costs. This scenario may result in a similar outcome to that outlined in paragraph 141(b), that is, only a modified conclusion may be achievable. There is also a possibility that costs would not be reduced due to additional work being required on prior period information on which limited assurance was provided.
143. Cost and benefit implications will be considered as part of the wider effects analysis relating to the implementation of general purpose water accounting standards that is being undertaken by the WASB concurrently with the development of the assurance standard.

Questions

- Q42. Are there any circumstances that would warrant the provision of assurance less frequently than the frequency of the preparation of the GPWAR?
- Q43. What are the implications for the usefulness of an assurance report where a limited assurance engagement is undertaken in one period, followed by reasonable assurance in the next period, if the assurance conclusion must be modified as a result?



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