

15 March 2013

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Comments on Exposure Draft 04/12 - Proposed Standard on Assurance Engagements ASAE 3xxx / Australian Water Accounting Standard 2 Assurance Engagements on General Purpose Water Accounting Reports

Dear Ms Kelsall and Mr Smith

Ernst & Young Australia welcomes the opportunity to comment on the Proposed Standard.

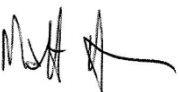
We support the Proposed Standard on Assurance Engagements on General Purpose Water Accounting Reports which we believe responds to the need for guidance to be provided to Australian assurance practitioners in undertaking such engagements over a General Purpose Water Accounting Report (GPWAR).

We agree with the approach adopted by the respective boards of basing the Proposed Standard on the requirements on ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ASAE 3000), and providing additional guidance specific to the growing discipline of Water Accounting where appropriate.

We have responded to the specific matters and questions included in the Explanatory Memorandum of the Exposure Draft in Appendix 1 of this letter, including practical recommendations for potential improvements and clarifications where appropriate.

We welcome the opportunity to continue to contribute to the development of the Proposed Standard and would be pleased to discuss our comments in more detail with you through the consultation phase. Please feel free to contact me on (03) 9288 8914 to discuss any questions relating to our comments.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Matt Honey'.

Matt Honey
Partner
Assurance

Appendix 1 Response to the Specific Matters and Questions set out in the Explanatory Memorandum

Question 1: Does the Proposed Standard provide adequate information to distinguish between reasonable assurance and limited assurance engagements? If not, are there particular areas that require further information?

We believe the proposed standard does provide adequate information to distinguish between reasonable and limited assurance.

In particular, we are supportive of the Proposed Standard *not* attempting to mandate when either limited or reasonable assurance would be more appropriate. In our experience, this is a matter best dealt with through either (a) the individual engagement between an assurance practitioner and a preparer of information to be assured, where the specific matters relating to the subject matter for that preparer can be taken into account or (b) establishment of market practice which will evolve with the discipline of water accounting.

We note that the proposed standard does not deal with other forms of potential reporting by an assurance practitioner over water accounting information, such as 'pre-assurance' procedures or 'agreed-upon procedures'. We support this notion as these types of engagements are adequately addressed by other Australian Auditing Standards, such as ASRS 4400 *Agreed-upon Procedures Engagements to Report Factual Findings* or ASAE 3100 *Compliance Engagements*. This is also consistent with Australian Water Accounting Standard 1 *Preparation and Presentation of General Purpose Water Accounting Reports* (AWAS 1), which requires such reports to be accompanied by an assurance (that is, limited or reasonable) statement.

Question 2: Is the use of a tabular format helpful in assisting the user to understand the requirements for reasonable assurance and limited assurance engagements? If not, please suggest an alternative format.

Yes. We have also found application of the similar tabular format in ASAE 3410 *Assurance Engagements on Greenhouse Gas Statements* to be helpful in this regard and consider this is a useful precedent for the Proposed Standard.

Question 3: Is the Proposed Standard clear in relation to assurance being provided on the water accounting statements, note disclosures and accountability statement, but not on the contextual statement? If not, indicate how, or where, the standard is unclear and suggest how it may be improved.

We believe the Proposed Standard is clear in this regard. We note that further consideration could be given to including a comment relating to the contextual statement in paragraph 87 which deals with other information, consistent with the way this is presented in paragraph 5. That is, paragraph 87 should also make it clear that the contextual statement is 'other information'.

Question 4: Does the Proposed Assurance Standard appropriately attribute roles to the responsible party, those charged with governance and management? If not, please specify the context in which these terms are not used appropriately.

Yes.

Question 5: Are the requirements and guidance on preconditions for accepting the engagement sufficient and appropriate for an assurance engagement on a general purpose water accounting report? Are there any other requirements and guidance that should be included?

We believe the requirements and guidance on preconditions for accepting the engagement sufficient and appropriate. Whilst paragraphs 10 to 13 deal with the requirement to comply with ASEA 3000 and ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* (ASA 102), further consideration could be given to whether, as a precondition for accepting the engagement, assurance practitioners should be required to assess their ability to comply with ASAE 3000 and ASA 102, in particular in relation to independence and objectivity.

Question 6: Are the matters listed in paragraph 26 appropriate for understanding the water report entity and its circumstances? Are there any other matters on which the assurance practitioner should obtain an understanding?

Yes.

Question 7: Are the causes of risks of material misstatement listed in paragraph 37 appropriate in an assurance engagement on a general purpose water accounting report? Are there any others that should be included?

Yes.

Question 8: Are the requirements and guidance on the assurance practitioner's conclusion and report, and the illustrative reports in Appendices 1 and 2, sufficient and appropriate? If not, please provide details of further requirements and guidance that should be included and suggest appropriate examples for inclusion in the illustrative reports.

Yes. We find the illustrative reports particularly useful. In reference to our comment on Question 10 below, further consideration could be given to inclusion of an illustrative emphasis of matter paragraph relating to the adequate disclosure of a significant judgement, uncertainty or estimate (such as a material unaccounted for difference) necessary to draw users' attention to a matter presented or disclosed in the GPWAR that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the GPWAR.

Question 9: Are the requirements and guidance relevant, sufficient and appropriate in relation to:

- (a) *Information prepared using the work of a management's expert (paragraphs 26(e), 49, A45, A79(g)(iv), and A96-A100)?*
- (b) *Initial engagements (paragraphs 61-66 and A109-A112)?*
- (c) *Using the work of an assurance practitioner's expert (paragraphs 19(b), 22(e), 32, 68-75, A10, A29, A79(g)(iv), A82(b) and A116-A138)?*
- (d) *Comparative information (paragraphs 80-86 and A141-A149)?*

If not, indicate the requirements and guidance that should be deleted from, or additional requirements and guidance that should be included in, the Proposed Standard.

We believe the requirements and guidance is generally relevant, sufficient and appropriate. Further consideration could be given to whether the language used in paragraph A149, which states that where:

“the assurance conclusion was unmodified, the assurance practitioner would *not ordinarily* include a reference to that predecessor assurance practitioner’s conclusion in the assurance practitioner’s report. If the predecessor assurance practitioner’s report was modified, the assurance practitioner *considers* the appropriateness of including a reference to that predecessor assurance practitioner’s conclusion in the assurance practitioner’s report.” [emphasis added]

is consistent with paragraph 85, which states:

“...the assurance practitioner *shall state* in an Other Matter paragraph in the assurance report:

- (a) That the general purpose water accounting report of the prior period was conducted by the predecessor assurance practitioner;
- (b) The type of conclusion expressed by the predecessor assurance practitioner and, if the conclusion was modified, the reasons therefore; and
- (c) The date of that report.” [emphasis added]

We believe further consideration should be given to whether paragraph 85 should be based on paragraph 13 of ASA 710 *Comparative Information - Corresponding Figures and Comparative Financial Reports* rather than paragraph 17 of ASA 710.

Question 10: Are the requirements and guidance in the Proposed Standard, and in particular, those relating to uncertainty, estimates and using professional judgement, sufficient to cover work done by the assurance practitioner on any unaccounted-for differences and the future prospects note in the general purpose water accounting report? If not, please provide suggested additional requirements and guidance to be included in the standard.

Whilst we consider the requirements and guidance in relation to uncertainty, estimates and significant judgements sufficient, consideration could be given as to whether it would also be appropriate that, consistent with paragraphs 19 and 20 of ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures*, that the assurance practitioner should consider and evaluate the water accounting policies of the preparer and disclosures related to uncertainty, estimates and significant judgements in the GPWAR, such as those required by AWAS 1 paragraphs 136 to 138. If this were considered appropriate, similar paragraphs to ASA 540 could be included in paragraphs 47L and 47R of the Proposed Standard.

Question 11: Are there any other specific matters unique to assurance engagements on general purpose water accounting reports that have not been included in the Proposed Assurance Standard that should be included?

Not of which we are aware.

Question 12: Does the application and other explanatory material provide sufficient guidance in the application of the Standard? If not, please provide suggested wording for additional, or more relevant, guidance.

Please refer to our response to Question 9. In addition, further consideration could be given to the inclusion of further guidance on the *extent* of documentation to be retained in the engagement documentation, such as a similar requirement to the ‘experienced auditor, having no previous connection with the audit’ requirement in paragraph 8 of ASA 230 *Audit Documentation*.

Question 13: Have applicable laws and regulations been adequately addressed in the Proposed Standard?

We are not aware of any matters in this regard.

Question 14: Are there any laws or regulations that may, or do, prevent or impede the application of the Proposed Standard, or may conflict with the proposed standard?

We are not aware of any matters in this regard.

Question 15: What, if any, are the additional significant costs to/benefits for assurance practitioners and the business community arising from compliance with the requirements of this Proposed Standard? If there are significant costs, do these outweigh the benefits to the users of assurance services?

Based on our preliminary assessments, we expect assurance services in relation to GPWARs should, in most circumstances, be able to be provided at a reasonable cost under the Proposed Standard.

Question 16: Are there any other significant public interest matters that respondents wish to raise?

We are not aware of any matters in this regard.