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15 March 2013

The Chairman
Water Accounting Standards Board
Bureau of Meteorology
Level 6, 700 Collins Street
Melbourne VIC 3000

By email to: wasbofeedback@bom.gov.au

Dear Mr. Smith,

RE: Exposure Draft of Australian Water Accounting Standard AWAS 2

Thank you for the opportunity to provide comments on the on the AWAS 2 Exposure Draft. I make specific comments in relation to questions 10 and 16 in the attached appendix, but overall I believe that assurance is an intrinsic part of credible water accounting and that the proposed standard is a good basis for such assurance to be provided. Therefore I support issuing AWAS 2 as a full water accounting standard.

Yours sincerely

A handwritten signature in black ink, appearing to be 'J Hazelton', written over a horizontal line.

James Hazelton, CA

Appendix: Response to Specific Questions in AWAS 2 ED Explanatory Memorandum

Question 10: Are the requirements and guidance in the proposed standard, and in particular, those relating to uncertainty, estimates and using professional judgment, 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.

While I appreciate that guidance has been given in relation to the auditing of uncertainty, I do not see how an unqualified audit report could be given on an entity with a significant unaccounted for difference (UFD). For example, the UFD for Adelaide in 2010 and 2011 reported in the National Water Account is greater than 100% not only of the change in net water assets, but also of net water assets themselves. This is essentially saying that the error term is greater than the quoted term. Merely requiring disclosure on UFD as per A25(f) does not address the issue of the overall lack of integrity of water information which is demonstrated by a highly material UFD.

From the perspective of an auditor, there is limited specific guidance provided as to how to respond to a highly material UFD. In cases of high levels of uncertainty paragraph A52 seems to suggest declining the engagement rather than providing a qualified report. The upshot is that the auditor is faced with the choice of either endorsing a materially misstated account or not reporting at all.

I therefore suggest indicating what an acceptable UFD is (such as by way of ratio to, say net water assets) and providing guidance on what an appropriate qualification wording might include where it is above this level. I believe that the starting point for this ratio should be 10% as whilst I accept that water is intrinsically less quantifiable than financial accounting, 10% is a widely accepted benchmark for report accuracy and I am not aware of a compelling justification for selecting any other ratio. This benchmark would also be in line with the *National Framework for Non-urban Water Metering* that sets an acceptable error margin for water meters of +/- 5%. Though this benchmark would clearly result in many such qualifications in water reports, at least initially, adopting this standard would set an aspirational level of report accuracy.

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

Response: My final comment relates to the operation of assurance within the water accounting model. The tone of both the standard and supporting materials implies a vision of an assurance model equivalent to that operating within the private sector, in that each reporting entity selects and then directly remunerates their assurance provider. It is undeniable that this model has proved problematic on occasion (with cases such as Enron illustrating the conflicts of interest that can develop) and a number of regulatory initiatives both in Australia and overseas have been undertaken to strengthen auditor independence. Yet there are other assurance models available. For example, auditors could be selected from a panel and randomly assigned to clients from a central agency that is also responsible for auditor remuneration.

I therefore believe it is critical that not only the mechanics of auditing but also the overall auditing model should be the subject of stakeholder consultation, which would be best achieved via a separate consultation process.

In relation to AWAS 2 I suggest including a statement in the commentary that makes it explicit that this standard can apply to any auditing model. Whilst this might be obvious to some practitioners, I believe this statement is important to ensure that the financial accounting audit model is not adopted by mere default. Indeed the quality of the water accounting auditing model may ultimately have a far greater influence on the integrity of water accounting reports than the quality of the auditing standard.