

15 March 2013

Ms Merran Kelsall  
The Chairman  
Auditing and Assurance Standards Board  
PO Box 204  
Collins Street West  
MELBOURNE VIC 8007

Dear Ms Kelsall

**Proposed Standard on Assurance Engagements ASAE 3xxx  
Australian Water Accounting Standard 2 (AWAS 2)  
Assurance Engagements on General Purpose Water Accounting Reports**

Attached is the Australasian Council of Auditors-General (ACAG) response to the Proposed Standard on Assurance Engagements referred to above.

The views expressed in this submission represent those of all Australian members of ACAG.

The opportunity to comment is appreciated and I trust you will find the attached comments useful. I would also like to bring to your attention that ACAG members have had limited exposure on water accounting and assurance, and have relied extensively on our knowledge and experience in relation to our public sector 'traditional' audit role.

Should you wish to clarify any particular matters in our response, we would welcome the opportunity to do so.

Yours sincerely



Simon O'Neill  
**Chairman**  
**ACAG Financial Reporting and Auditing Committee**

**Proposed Standard on Assurance Engagements ASAE 3xxx  
Australian Water Accounting Standard 2 (AWAS 2)  
Assurance Engagements on General Purpose Water Accounting Reports**

ACAG provides the following comments in response to the AUASB and WASB request for comments on the proposed standard and feedback on the specific matters in the proposed standard.

**Overall Comments**

ACAG supports the development of a standard on assurance engagements on general purpose water accounting reports. As this is a new framework, a transitional approach may need to be exercised by the entities preparing the reports and practitioners providing assurance on those reports.

The long-term benefits to the industry, and indeed, Australia should not be under-estimated. Clearly water is becoming a highly variable resource in Australia, and so implementing an assurance standard and understanding more, and reporting more thoroughly, about stocks, balances, flows, and likely future usage, will surely be of benefit to governments, regulators, water entities, and end-users.

**Specific Matter for Comment 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?*

ACAG believes the proposed standard does provide adequate information to distinguish between reasonable assurance and limited assurance engagements.

As paragraphs 8, 9, 15 and application paragraph A2 of the proposed standard provide adequate information in relation to the two types of engagements, ACAG does not believe that further information is required in the eventual standard.

**Specific Matter for Comment 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.*

ACAG supports the use of a tabular format in assisting the user to understand the requirements for reasonable assurance and limited assurance engagements as it clearly articulates the process steps that assurance practitioners should follow in each respective engagement.

### **Specific Matter for Comment 3**

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

ACAG is of the view that the proposed standard is clear in relation to assurance not being provided on the contextual statement as evidenced in the scope section – paragraph 5 and the definition of a general purpose water accounting report contained within paragraph 15.

However, it may be useful to include guidance and an explanation as to why the contextual statement is not subject to assurance. In addition, ACAG suggests a link to the definition of the contextual statement in paragraph 56 of AWAS 1 be included in the assurance standard.

### **Specific Matter for Comment 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.*

The proposed standard appropriately attributes roles to the responsible party, those charged with governance and management. The definitions contained within paragraph 15 clearly articulate their respective roles in relation to the preparation and presentation of a general purpose water accounting report.

### **Specific Matter for Comment 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?*

ACAG suggests the title above paragraph 20 be amended to ‘*Preconditions for Accepting or Continuing the Engagement*’.

ACAG supports the proposed requirements and guidance in relation to preconditions for accepting an assurance engagement. However, ACAG suggest the following additional preconditions be included in the eventual assurance standard:

- the uncertainty on information in the general purpose water accounting report is not very high;
- the assessment of the adequacy of the condition and reliability of the responsible party’s records; and
- the integrity of those preparing the general purpose water accounting reports.

### **Specific Matter for Comment 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?*

In relation to the matters listed in paragraph 26, ACAG has no further matters to include.

### **Specific Matter for Comment 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?*

In addition to the causes of risks of material misstatement listed in paragraph 37, ACAG are of the view that the assurance practitioner should also consider:

- the risk of double-counting water assets and liabilities;
- whether the responsible party used a management's expert to assist them in preparing the general purpose water accounting report, and whether that expert was external to the reporting entity; and
- the nature, cause and extent of scientific uncertainty.

In relation to paragraph 37(c) of the proposed standard, ACAG suggest that the words 'or misstatement' be included after 'omission'.

### **Specific Matter for Comment 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.*

ACAG welcomes the inclusion of illustrative reports in Appendices 1 and 2 as they will assist an assurance practitioner in drafting their initial assurance reports and promote consistency in assurance reporting.

ACAG consider the requirements and guidance on the assurance practitioner's conclusion and report to be sufficient and appropriate.

### **Specific Matter for Comment 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 A96-100)?*

*(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.*

ACAG recommends the eventual standard to include requirements and/or guidance in relation to the assurance practitioner's knowledge of and experience with previous work performed by that assurance practitioner's expert.

In relation to using the work of an assurance practitioner's expert, ACAG suggests that the requirements make reference to whether the expert is subject to the assurance practitioner's quality control policies and procedures.

### **Specific Matter for Comment 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.*

ACAG suggests that additional guidance be included in the eventual standard that addresses unaccounted-for-differences and the reliability of the future prospects note. We are of the view that the reliability of the future prospects note and the elements of uncertainty in relation to unaccounted-for-differences will depend on how valid the assumptions are for an assurance practitioner to sign-off on. The assurance practitioner may not have the expertise to adequately assess these assumptions and may therefore need to engage technical experts to assist in this regard.

### **Specific Matter for Comment 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?*

ACAG are unaware of any other specific matters unique to assurance engagements on general purpose water accounting reports that have not been included in the proposed standard.

### **Specific Matter for Comment 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.*

ACAG supports the core structure of the proposed standard. However, ACAG is not in a position to comment on the sufficiency of guidance in the application of the standard as we haven't audited water accounting reports before.

### **Specific Matter for Comment 13**

*Have applicable laws and regulations been adequately addressed in the proposed standard?*

In light of ACAG's lack of experience with general purpose water accounting reports, we are unable to comment on whether all applicable laws and regulations have been adequately addressed in the proposed standard.

### **Specific Matter for Comment 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?*

ACAG are unaware of any laws or regulations that may prevent or impede the application of the proposed standard, or may conflict with the proposed standard.

### **Specific Matter for Comment 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?*

ACAG have no visibility over the current state of a reporting entity's internal controls, and the extent and quality of their processes and systems used to report water volumes and flows. Therefore, there would be increased audit costs arising from compliance with the requirements of this standard.

It is likely that this proposed Water Accounting Standard would result in increased costs for reporting entities, because new business systems and processes may be required, which may mean devoting additional resources for the development of new IT systems and training staff on how to use the systems to capture the required information.

ACAG's concern is that the development of standards to apply to statements that account for water will only be as reliable as the data that is available. The reality may be that reporting entities may not have the resources to implement the required systems and procedures. In turn, this will impede on the reliability of figures presented within the general purpose water accounting report that would be subject to scrutiny under a formal assurance standard.

In addition, the expertise to perform assurance engagements on general purpose water accounting reports will most likely come from the Big 4 accounting firms, which will increase audit fees to be met by the responsible party.

### **Specific Matter for Comment 16**

*Are there any other significant public interest matters that respondents wish to raise?*

We note under paragraph 6 of the exposure draft that the proposed standard will not deal with, or provide specific guidance for, assurance engagements to report on water accounting reports prepared in accordance with special purpose water reporting frameworks. If special purpose water accounting reports were to be prepared, under what accounting framework would they be prepared?

It is unclear whether water entities in areas other than the eight geographical areas identified in the National Water Account Information Sheet #7 will fall under the requirements of the standards in the future.

In order for the annual National Water Account to provide a detailed insight into the management of Australia's water resources at the national and regional scale, ACAG believes that all major geographical locations should be subject to the requirements of the proposed standard. For example, Brisbane, Hobart and Darwin are not included in the abovementioned Information Sheet. ACAG are of the view that the above gap should be brought to the attention of the Water Accounting Standards Board of the Bureau of Meteorology.

### **Other Matters**

A few matters as set out below are inconsistent with requirements in similar standards or could be stated more clearly.

- There may be merit in aligning the assertions in this proposed standard to those in other standards. For example, the assertions included in A73(a) appear more relevant to flows (transactions) than to water assets and water liabilities (balances).
- There is lack of clarity regarding the meaning of paragraph 22(a)
- The last sentence within A104 appears to expect the assurance practitioner to agree or reconcile the general purpose water accounting report to the underlying water records. While the assurance practitioner's documentation should include evidence that this information agrees and reconciles, it should not be the assurance practitioner's responsibility to agree or reconcile the general purpose water accounting report to the underlying water records. This should be the task of the responsible party.
- Paragraph 94 in relation to Engagement Quality Control Reviews (EQCR) does not require the EQCR to consider whether the assurance risks have been appropriately identified or addressed. AGAC suggests this paragraph also include EQCR requirements similar to those required under ASQC1 paragraph 38.