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Auditing & Assurance Standards Board

11 March 2013

Dear Board Members

PROPOSED STANDARD ON ASSURANCE ENGAGEMENTS

Australian Water Accounting Standard 2

Assurance Engagements on General Purpose Water Accounting Reports (AWAS 2) (“the Standard”)

We respond to your request for comment on the exposure draft of the Standard. Paragraph references refer to the Standard unless otherwise stated. Our comments are referenced to the questions as presented 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?

Question 1 appears to provide some flexibility in the degree of assurance to be provided by a limited assurance engagement. Extensive audit procedures appear to be mandated in paragraphs 35, 40 to 47, 52 and 53.

In our view, many of these procedures are not contentious and would normally be undertaken in any assignment, but we have a general concern that the flexibility indicated by the degree of assurance required is not consistent with the procedures prescribed.

By way of example, we refer to paragraph 52L requiring the assurance practitioner to agree or reconcile the general purpose water accounting report with the underlying records. Such a procedure is not prescribed by *ASRAE2410 Review of a financial report* performed by the independent auditor of the entity. This appears to be an inconsistency between two auditing standards, each dealing with limited assurance and perhaps indicates that the procedures are too prescriptive.

We refer to paragraph 15(z) being the definition of a reasonable assurance engagement. Some guidance reconciling this definition with the definition of ‘reasonable assurance’ in paragraph 4 of ASAE3000 would be helpful.

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.

The tabular format may be helpful in assisting the user to understand the relative requirements of reasonable and limited assurance. However, as discussed above, it fails to recognise a discretion in the degree of limited assurance required. There is also an argument

that there is a distinction between a standard and a guidance note. While clarity is important in a standard, education is perhaps not the correct role of a standard.

We suggest that the narrative format required for limited assurance as used in *ASRAE2410 Review of a financial report* assurance is more appropriate for a standard, provides for relevant exercise of discretion and facilitates consistency.

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 that the standard is clear.

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.

Paragraph 101 is the only paragraph we identified where the role of those charged with governance was distinct from management. The standard appears to adequately attribute roles. The concepts are inconsistent with common practice where those charged with governance are responsible to account and employ management to execute their instructions. However, we appreciate that in some circumstances the distinctions may be appropriate.

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?

While we have not noted any deficiencies in relation to accepting engagements, there are specific auditing standards on this part of the process, and as a consequence, there must be a potential for conflict.

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?

Paragraph 26 does not refer to the responsible entity, to whom the responsible entity is accountable, being the user of the accounting statements and the use to which they will be put. Consideration of these matters is required to form an opinion as to materiality.

We acknowledge that the requirement to consider these matters may be implicit in other parts of the standard.

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?

Paragraph 37 mandates consideration of specific issues and consequently documentation of those matters. While we appreciate the standard setter's dilemma that codifying requirements almost inevitably gives rise to matters of omission, we have not identified any deficiencies. The focus of this paragraph on risks of material misstatements draws attention to the lack of a proportionate focus on determining a material misstatement.

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.

We have not identified any matters in relation to this question.

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.

Paragraph 85 requires both the predecessor assurance practitioner to be named and the type of conclusion expressed to be described in the assurance report. Paragraph A149 indicates that in respect of an unmodified report, 'the assurance practitioner would not normally include a reference to that predecessor assurance practitioner's report'.

There are established auditing standards describing the circumstances in which reference should be made to the audit report on prior period financial statements.

We suggest that a reconciliation of the paragraphs 85 and A149 be more clearly provided. We suggest that consideration be given as to whether this standard departs from established auditing standards. Such a departure should only be supported after careful consideration.

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.

Any guidance in the standard as to forming an opinion on what constitutes water and what constitutes a water asset is difficult to find. We imagine that practical issues may relate to:

- contaminated water;

- claims to water, for instance where a catchment encroaches on property not controlled by the entity; and
- water which is in the ground but not in an aquifer, for instance moisture surrounding dams.

Reference is made in the draft to ‘criteria’. On our reading the criteria are encompassed by the water accounting standard although the implication is that they are distinct from the water accounting standard which is referred separately in the auditing standard. Further clarification of criteria would be useful.

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?

Our relevant comments are included above.

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.

Paragraph 43R refers to ‘tests of details’. We query whether the clarity of this phrase which also appears elsewhere might be improved.

Paragraph 92 refers to the concept of ‘retention period’. Consideration might be given as to whether this should be further defined either in the standard or the guidance.

Question 13: Have applicable laws and regulations been adequately addressed in the proposed standard?

We refer to paragraphs 10, 16 and A8. More explicit guidance on whether a report issued pursuant to the auditing standard necessarily requires compliance with all auditing standards would be useful. Without forming a view on this, we imagine that most auditors would regard compliance with all auditing standards as being required.

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?

Where the Standard purports to restate requirements of other auditing standards, for instance on engagement, and perhaps abbreviate those requirements, it is almost inevitable that conflicts may arise if there is any doubt that all auditing standards should be applied.

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?

While we have no specific comment in response to the question, we refer to the use of ‘benefits’ in the question. There is an argument that if the costs outweigh the benefits, compliance is not material. This argument is not that it is expensive in itself but if the

expense exceeds the benefit, the positive impact of the decision made on the basis of the information is exceeded by the negative impact of the cost and therefore the information is not material.

This may indicate that guidance on materiality should be expanded.

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

There are no matters that we wish to raise.

Summary

Many of our comments relate to the following issues.

1. The relationship between the Standard and other auditing standards which form the basis of professional auditing in Australia. A view that the Standard should stand on its own or solely with ASRE 3000 is to discount the sophistication and consequent value of established auditing practice and we prefer the view that all auditing standards should apply.
2. While the Standard recognises the significance of materiality, there is an opportunity to improve the direction and guidance as it relates to establishing materiality in water accounting. We acknowledge that materiality is not an auditing concept but still maintain that the auditing standard should address the issue more closely. This is an area where the standard could usefully augment Auditing Standard ASA 320 Materiality in Planning and Performing an Audit.

Yours faithfully

BDO (SA)



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