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Sent: Friday, 28 December 2012 1:06 PM
To: ED Comments; 'wasbofeedback@bom.gov.au'
Cc: SEARES Patrick

Subject: Feedback on the proposed standard - Water Accounting Assurance Engagements

Thank you for the opportunity to provide feedback on the proposed standard for water accounting assurance engagements.

My overall view of the exposure draft is positive and as it stands it is a viable document for issuing as a preliminary Australian standard.

I have distributed the link to the document to a range of consultants, academics, water industry and mining companies located in Western Australia and I hope that you obtain feedback directly from them.

There are 3 points which I feel may improve the proposed standard and these are outlined below for your consideration.

Point 1 – Competency in the estimation of water inflows and outflows.

The current exposure draft talks a lot about the Assurance Practitioner having skills, knowledge and experience in the quantification of **water assets and water liabilities**.

The quantification of **water inflows and outflows** during the water year also requires great skill, significant experience and in most cases needs input from an expert with a hydrologic background.

The seasonal characteristics of inflows and outflows and whether rains are late or early or the staging of the releases of water is often of great interest to users of water accounts.

I think that it should be clear in the exposure draft that the engagement practitioner needs to equally have competency in the estimation of water flows as well as water assets and liabilities.

For example in A9 (page 43) I would like to add competency (f) as follows:-

(f). Quantification and measurement methodologies for water inflows and water outflows, including the associated scientific and estimation uncertainties, and alternative methodologies available.

Each discussion in the exposure draft on the assurance of water assets and liabilities should have a corresponding reference to the quantification and verification of water flows.

Point 2 – Peer Review as a alternative/superior/supporting method for assurance engagements.

Peer review is a process of self-regulation by a profession or a process of evaluation involving qualified individuals within the relevant field. Peer review methods are employed to maintain standards, improve performance and provide credibility. (ref: Wikipedia)

Second example of peer review here.

Groundwater models are often peer reviewed against this benchmark.

And more recently against this one.

Peer review is already a respected process within the water industry.

Peer reviews are mentioned only once in the exposure draft – and very briefly at 26(l).

Peer review provides assurance to stakeholders that groundwater models used in the production of water accounts are fit for purpose, are properly calibrated; represent the best science and produce estimates of inflows and outflows which are credible.

It is tempting to assume that peer review is just one of the things that an engagement practitioner can rely upon in forming their opinion on water accounts **but** it could equally be argued that peer review already provides a better and more cost effective method of assurance than that outlined in the exposure draft.

As peer reviewing is already an established and well understood practice within the water industry – the exposure draft should at a minimum have a discussion on whether:-

- How an assurance engagement under the proposed standard differs from a peer review;
- Assurance engagements as outlined in the exposure draft supersede peer reviews;
- Whether peer reviews and assurance engagements are complementary and to explain and differentiate the roles of the two;
- Whether the exposure draft acknowledges that a peer review could be a viable alternative to an assurance engagement and in what circumstances.

Point 3 – Adding Apples, Oranges and Pears to construct a water account and how the Auditor can help!

Water accounting is in its infancy and in many cases relies largely on systems and processes never envisaged for the construction of a water account.

In this environment, the traditional approach of relying on "internal controls" as discussed in A60 is challenging without some prior assessment and then subsequent education of clients on what controls are needed for an auditor to rely on.

In my view it is not good enough for an auditor to simply turn and up and make a "no opinion" or "no engagement" decision per paragraph A61.

Instead the assurance practitioner needs to be proactive in helping their client to get water accounting assurance ready, by having a pre-audit engagement to assess systems, procedures and data readiness (preferably at least 12 months in advance of an actual assurance engagement).

In this way clients can be helped well in advance of the preparation and publication of a water account and its subsequent assurance.

As water accounting matures, it may not be necessary to conduct this step – however in early formative days it would be unfortunate if almost every assurance engagement resulted in a no engagement or no opinion decision – thereby reducing the credibility of the proposed standard and of water accounting as a whole.

It is our experience that in a complex environment it can take many years to get systems and procedures in place such that an auditable set of accounts can be produced.

Many questions need to be asked by the assurance practitioner and subsequently answered by the preparer of the water accounts - for example:-

- Have snapshots of datasets been taken at 30th June each year? (many water management systems do not have a balance date function and do not keep history).
- Have models used for predictive purposes been redeveloped so they are water accounting ready? and have those models been properly calibrated and externally reviewed (with evidence of the review)
- Are meter readings regularly reviewed by senior officers and are those reviews evidenced?
- Is there a water accounting manual and have key actions and procedures been documented and has the manual been approved by a senior officer?

- Are key source documents kept after data entry?
- When was the last time that meters were calibrated?
- Are the meter readers rotated such that one person does not always read the same meter?
- Is the manufacturer's meter documentation kept so that error bounds can be understood?
- Etc etc.

These are things that if they are not already in place can take the preparer of the water accounts many months (and in some cases years) to put in place.

I would prefer therefore that the discussion in A63 be upgraded to make it clear that the assurance practitioner is to be **proactive** in helping their client get assurance ready through a pre-audit engagement or other means. As it currently reads it is far too passive.

Regards

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