

31 October 2011

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

Dear Ms Kelsall

**Consultation Paper: Assurance Engagements on  
General Purpose Water Accounting Reports**

Attached is the Australasian Council of Auditors-General (ACAG) response to the Consultation Paper 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 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**

**Consultation Paper: Assurance Engagements on  
General Purpose Water Accounting Reports**

**Q1. Which of the three alternatives do you prefer for a standard on assurance engagements on GPWAR? Please provide reasons to support your view.**

*Alternative 3 Develop a new standard that refers to existing AUASB standards, since assurance practice and reporting for GPWAR should be consistent with other auditing standards.*

**Q2. Do you agree that the qualifications' requirements in the proposed assurance standard should be principles-based and not prescriptive? Please provide reasons for your view.**

Yes, principles-based since use of a prescriptive approach is not flexible and its maintenance may be time-consuming.

**Q3. If you answered 'yes' to Question 2, are the suggested qualifications' requirements and guidance in paragraphs 23-24 appropriate?**

Yes. ASA 620 *Using the Work of an Auditor's Expert* should also be referenced in this area.

**Q4. Are there any other qualifications' requirements and guidance that should be included in the assurance standard?**

Yes, ACAG has a preference that suitable accreditation from relevant professional bodies should be included.

**Q5. Do you think that the assurance standard should be available for application by anyone with appropriate skills and who can meet appropriate ethical and quality control requirements, or do you believe it should be restricted to only those persons with particular accreditation from certain bodies?**

ACAG has a preference for the application to be restricted to persons with accreditation from relevant recognised professional bodies.

**Q6. Please provide details of regulators that may be appropriate to set accreditation requirements for assurance practitioners performing assurance engagements on GPWAR.**

ACAG are not aware of any regulators for accreditation requirements for GPWAR.

**Q7. Do you agree that the proposed assurance standard should include a requirement relating to compliance with relevant ethical principles, including independence?**

Yes, supported.

**Q8. Would a requirement such as that in paragraph 38, with additional guidance such as that in paragraph 39, cover assurance practitioners from a range of backgrounds?**

Yes, supported.

**Q9. Do you believe that appropriate safeguards relating to threats to independence can be put in place to ensure the integrity of the assurance process? If so, please list some of those safeguards.**

Yes, ACAG believes that safeguards can be put in place in certain circumstances and suggests that reference should be made to APES 110 *Code of Ethics for Professional Accountants* or other equivalent professional requirements.

**Q10. Please provide details of codes of ethics or conduct, or other professional requirements, or laws and regulations, covering other professional groups that may be involved in assurance engagements on GPWAR, which contain similar ethical requirements to those contained in the Code of Ethics for Professional Accountants.**

ACAG are unaware of the other professional groups involved in GPWAR assurance engagements.

**Q11. Should assurance be provided on the GPWAR as a whole, taking into account each component of the GPWAR: the Contextual Statement, water accounting statements, note disclosures and the Accountability Statement?**

The auditing practice of providing an Independent Audit Report on the whole financial report should also be adopted for GPWAR. Sign-off of the GPWAR should be consistent with audit practice which does not require sign-off of the Director's Report (Contextual Statement) other than that it is consistent with the financial statements.

**Q12. Should assurance be provided on the Contextual Statement in a GPWAR?**

No, the Contextual Statement should not form a direct part of the GPWAR since no assurance can be given over its content. However, if there were inconsistencies in the Contextual Statement compared to the Water Accounting Statements, the assurance practitioner should raise this as a matter of course.

**Q13. Do you consider that assurance can be provided on each of the three aspects covered in the Accountability Statement? Please provide reasons to support your views.**

Comments are provided on each of the three aspects.

To assess whether:

- (a) the GPWAR has been prepared and presented in accordance with AWAS 1.
  - yes, agreed since this is the purpose of the assurance standard.
- (b) there has been compliance with externally-imposed requirements relevant to managing the water assets and water liabilities.
  - yes. These requirements should be specifically detailed for compliance purposes and to aid the assurance practitioner.

- (c) best practices have been applied in managing the water assets and water liabilities.
- This will be dependent on the elaboration of the benchmark or industry standard used to assist the assurance practitioner's understanding and the extent it can be relied on.

**Q14. Would the assurance practitioner need to perform any specific or additional procedures in relation to the unaccounted-for difference?**

No, as outlined in paragraph 59 the unaccounted-for difference will be assessed as a result of performing assurance procedures on the other aspects of the GPWAR.

**Q15. Are there any other items or elements within the components of a GPWAR that present complexities in terms of assurance?**

ACAG is not aware of any other items or elements.

**Q16. Should the proposed assurance standard allow for both reasonable and limited assurance?**

Yes, limited assurance should be an option for assurance practitioners.

**Q17. If you consider that limited assurance should be covered in the proposed standard for assurance engagements on GPWAR, please identify the circumstances in which limited assurance might be appropriate.**

Where the level of comfort required from the assurance practitioner is for internal reporting purposes and not intended to be used by the readers of the report for investment decision-making purposes, then a limited assurance engagement may be appropriate.

**Q18. Do you agree that single-layered assurance reports are preferable for GPWAR? Please provide reasons to support your views.**

Yes. Reasons as outlined in paragraph 71 are supported.

**Q19. Do you agree that the proposed standard for assurance engagements on GPWAR should include requirements and guidance relating to the content of the assurance report to promote consistency in assurance reporting?**

Yes, this would assist assurance practitioners provided the GPWAR is consistent with current auditing standards.

**Q20. Do you consider that illustrative assurance reports would be helpful and should be included in the proposed assurance standard?**

Yes, supported.

**Q21. Should the proposed assurance standard include requirements and guidance on the different types of assurance conclusions that may be included in an assurance report on a GPWAR?**

Given the nature of GPWAR, it is agreed that this would assist in consistency of assurance reporting.

**Q22. Are the types of assurance conclusions discussed in this consultation paper relevant to assurance engagements on GPWAR?**

Yes, there are parallels to financial reporting audit reports that appear valid.

**Q23. Should the proposed assurance standard include requirements and guidance on Emphasis of Matter and Other Matter paragraphs in the assurance report?**

Yes.

**Q24. Please provide examples of matters that may be included in an Emphasis of Matter paragraph in an assurance report on a GPWAR.**

ACAG have no specific examples in light of the lack of experience with GPWAR.

**Q25. Please provide examples of matters that may be included in an Other Matter paragraph in an assurance report on a GPWAR.**

See Q24 response above.

**Q26. Do you agree that it is appropriate to use a principles-based approach, rather than prescribing a numeric level for materiality in the proposed standard for assurance engagements on GPWAR?**

Yes, supported. This would be consistent with ASA 320 *Materiality and Audit Adjustments*.

**Q27. Are there any specific considerations necessary in the application of ‘traditional’ assurance procedures to assurance engagements on GPWAR?**

Specific considerations are necessary because water accounting is very different to financial accounting. The practitioner will need to exercise professional judgement using relevant skills in obtaining sufficient appropriate audit evidence using traditional procedures.

**Q28. Are there any other procedures that have not been identified that you consider would be applicable to assurance engagements on GPWAR?**

ACAG have no specific examples in light of the lack of experience with GPWAR.

**Q29. Should the proposed assurance standard include requirements and guidance relating to using the work of assurance practitioners' experts?**

Yes, supported. ASA 620 *Using the Work of an Auditor's Expert* would provide useful guidance.

**Q30. Are there any special considerations that are required when the assurance practitioner uses the work of an assurance practitioner's expert in an assurance engagement of GPWAR?**

The assurance practitioner would need to be able to assess if the expert has sufficient skills and competency.

**Q31. Should the proposed assurance standard include requirements and guidance relating to using the work of management's experts?**

Yes, supported.

**Q32. Are there any special considerations that are required when the assurance practitioner uses the work of a management's expert in an assurance engagement on GPWAR?**

ACAG is not aware of any special considerations required.

**Q33. Are you aware of any internal audit functions that perform work related to the water accounting function of a management group likely to be a GPWAR preparer and, if so, should the assurance standard provide for the use of the work of internal audit by the assurance practitioner?**

ACAG is aware of a Big 4 firm used in Queensland as an internal auditor for the National Water Accounts for a government department.

ACAG supports the assurance standard providing for the use of the work of internal audit.

**Q34. Are you aware of any QA/QC, or peer review, functions undertaken that are related to the water accounting function of a management group likely to be a GPWAR preparer?**

ACAG is not aware of any such functions.

**Q35. What impact, if any, will the existence of QA/QC, or peer review, functions have on assurance engagements on GPWAR?**

As noted in paragraph 123, these functions may assist the assurance practitioner in their assessment of the internal control structure, however, the extent of reliance will be dependent upon the nature of the work performed.

**Q36. Are you aware of any group water report entities involving more than one component entity or of a water report entity involving a number of components of a water system? If so, please provide details.**

ACAG is not aware of any such group water report entities.

**Q37. Should the proposed standard for assurance engagements on GPWAR provide requirements and guidance for group assurance practitioners when using the work of component assurance practitioners?**

Yes, this would be beneficial.

**Q38. What should be the assurance practitioner's responsibilities regarding information included in the Future Prospects note in a GPWAR?**

The assurance practitioner has a responsibility to ensure that the matters contained within the Future Prospects note are reliably measured, can be justified and that there are no material uncertainties as per paragraph 134.

**Q39. Does the information in the Future Prospects note in a GPWAR present any challenges for assurance practitioners? If so, please provide details.**

The reliability of the Future Prospects note 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 need to engage technical experts to assist in this regard.

**Q40. Should the proposed assurance standard for GPWAR include requirements regarding subsequent events?**

Yes, supported.

**Q41. Please provide examples of adjusting events after the reporting period, as defined in ED AWAS 1, together with any assurance implications arising from them.**

ACAG has limited knowledge with regard to adjusting events in accounting for water.

An adjusting event may be the discovery of a water accounting error which could have a material impact on certain balances for water assets and/or liabilities. This may affect the reliability of the GPWAR.

**Q42. Are there any circumstances that would warrant the provision of assurance less frequently than the frequency of the preparation of the GPWAR?**

ACAG suggests that the assurance report should align with the frequency of the GPWAR.

**Q43. What are the implications for the usefulness of an assurance report where a limited assurance engagement is undertaken in one period, followed by reasonable assurance in the next period, if the assurance conclusion must be modified as a result?**

ACAG believes that this situation would reduce the reliability of the GPWAR to users.

**Other matters for comment**

- (a) We understand that the Australian Water Accounting Standards are being created under the authority of the Commonwealth *Water Act 2007* to compliment the Australian accounting standards, however, we are unclear if there is legislative authority for the GPWAR to align with the Australian accounting standards.
- (b) We suggest that a Glossary of Terms as per that in the draft Conceptual Framework for the Preparation and Presentation of General Purpose Water Accounting Reports: Introduction ([http://www.bom.gov.au/water/about/consultation/document/WACF\\_Introduction\\_August09.pdf](http://www.bom.gov.au/water/about/consultation/document/WACF_Introduction_August09.pdf)) would assist assurance practitioners' understanding of terminology.
- (c) It is unclear whether water entities in areas other than the eight geographic areas identified in the National Water Account Information Sheet 7 will fall under the Australian Water Accounting Standards in future.
- (d) It is unclear if the Australian Water Accounting Standards are mandatory.
- (e) ACAG also suggests that the ultimate purpose of the GPWAR should be clearly communicated. If water is to be eventually traded, assurance processes over financial valuations should be consistent as with other instruments.
- (f) If special purpose water reports were to be prepared, what accounting framework would they be prepared under?