

Consultation Paper: Assurance Engagements on General Purpose Water Accounting Reports

Respondents are invited to comment on all or any of the questions raised in this consultation paper.

Comments are requested by **31 October 2011**.

Comments received will be published on the AUASB and Bureau websites, unless otherwise requested.

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Q1. Which of the three alternatives do you prefer for a standard on assurance engagements on General Purpose Water Accounting Reports (GPWAR)? Please provide reasons to support your view.1

It is our view that a new stand alone assurance standard should be developed. Water Accounting is different enough from Financial Accounting to require its own tailored standard. There should be a phased approach starting with a simple, easy to understand standard that affords cost effective assurance engagements. More complex versions of the standard can be developed over a longer period of time as assurance practitioners become more familiar with water accounting and its issues.

The Department of Water has been involved with the development of water accounting in Australia for over 3 years.

The team that has evolved includes a diversity of skills, including an engineer, mathematician/modeller, GIS, metering data collection; and an experienced accountant.

It would be a mistake to assume that existing financial assurance standards and the skills held by financial practitioners are sufficient to undertake water accounting assurance engagements without significant new investment in skills development and the construction of tailor made procedures.

Our experience is that it will take time for a good understanding of the issues surrounding water accounting to be understood by assurance practitioners. A two to three year timeframe is likely.

An assurance standard for water accounting must therefore ensure that a diversity of professional skills are embraced in providing an assurance function.

Assurance practitioners must command respect from the readers of water accounts and it is our view that a range of existing professional bodies already command the necessary respect. Bodies such as the Engineers Australia and the Institute of Chartered Accountants have along established track records in providing frameworks and standards for the delivery of respected professional services.

In WA budgets are tight and competition for resources between water accounting and other water reporting mechanisms is a real issue – many are still sceptical about the value of water accounting and why it should replace more traditional water resource reporting mechanisms - therefore any new requirements must provide for the cost effective delivery of assurance services.

Costs associated with water accounting and assurance are a barrier to acceptance of water accounting generally. Standards need to lead to cost effective reporting.

Practical water accounting skills are scarce and largely held within the public sector. State's do not have the time or money to transfer water accounting knowledge and skills built over a number of years to the private sector.

Practitioners who wish to enter the water accounting assurance market will need to make new investments in developing their own skills and assurance techniques – most likely in advance of receiving an income stream.

Universities and other educational bodies currently offer little in the way of water accounting studies and there needs to be engagement with tertiary institutions to ensure skills in water accounting and assurance become more widely available.

In the short term, peer reviews between States are a simple cost effective way to leverage existing skill-sets and keep assurance costs low. The draft standard needs to recognise this methodology as a viable mechanism of providing assurance, particularly in the early days of water accounting and assurance.

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 in the long run, however:-

We believe that in order to speed the adoption of water accounting and to leverage existing skills and services in the marketplace, that in the first version of the assurance standard that qualification requirements be based on membership of a number of existing respected professional organisations.

A list of proposed pre-qualified professional bodies should be attached to the first version of the standard.

A checklist for the assessment of professional body suitability should be drawn up and professional bodies invited to express an interest for inclusion on the standard's list of pre-qualified professions.

Bodies such as the Engineers Australia, ICA, CPA are examples of the types of bodies who we consider would be suitable for naming as pre-qualified professional bodies in the standard.

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

It is our view that in the first version of the standard that qualification requirements should be based on current membership of a pre-qualified and scheduled set of professional bodies.

Those bodies should have sufficient standing in the community to command unquestionable respect and who have sufficient resources to develop up and police water accounting assurance skills within their membership and; who have the capacity to provide professional PD on water accounting to their membership.

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

A list of pre-qualified professional bodies whose members are recommended as those to provide water accounting assurance services.

Q5. Do you think that the 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?

Restricted to members of the pre-qualified professional bodies.

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

Not sure of regulators – but we believe members of pre-qualified professional bodies such as the ICA, CPA, IEA would be suitable – so no new regulatory requirements are needed.

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

Yes - pre-accredited professional bodies would need to have relevant ethical principles before receiving accreditation.

The checklist for pre-accreditation of professional bodies should include ethical standards, independence and disciplinary processes.

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?

The assurance practitioners would be required to adhere to the standards set by their professional bodies.

Only paid up members of pre-qualified professional bodies should be allowed to provide water accounting assurance services.

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?

The assurance practitioners would be required to adhere to the standards set by their professional bodies.

Only paid up members of pre-qualified professional bodies should be allowed to provide water accounting assurance services.

We will rely on the existing processes of pre-qualified professional bodies to ensure that independence issues are addressed, monitored and policed.

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*. Feedback Form | Consultation Paper: Assurance Engagements on General Purpose Water Accounting Reports

Professional bodies should be invited to be pre-qualified and this would form part of the assessment process.

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?

Assurance should be given on the water accounting statements and explanatory notes.

Assessing and forming a view on the contextual statement and the accountability statement should be outside the scope of water accounting assurance services.

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

No

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.

Point (a) – this is considered to be a reasonable disclosure of the preparer - but we do not believe that an assurance practitioner should be required to publish an opinion on it in the first version of the assurance standard (to keep costs down).

It could be considered as an additional requirement of the assurance practitioner in a future version of the assurance standard.

Point (b) – we do not think that this is a reasonable disclosure requirement of the preparer and it should not be required to be assessed by the assurance practitioner.

Point (c) – we do not think that this is a reasonable disclosure requirement of the preparer and it should not be required to be assessed by the assurance practitioner.

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

No - other than if the unaccounted for difference is so material that the assurance practitioner is unable to form an opinion on the accuracy of the water accounts – then that practitioner may seek guidance from a second assurance practitioner.

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

There are many complexities in preparing water accounts - of which most will challenge the capabilities of an assurance practitioner.

Just to name a few:-

- a. The use of groundwater models , their complexity, underlying assumptions and their suitability to quantify water volumes is challenging.
- b. There is more water in the environment than that available for use - so the disclosure of off balance sheet water (eg "contingent" water) will be challenging.
- c. The assurance practitioner will need to have an appreciation of the water management regime to determine the reasonableness of the treatment of such things as on-balance sheet and off-balance sheet assets and liabilities.

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

Yes – and for Peer reviews.

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 there is a limited audience for the water accounts.

Where organisations are constructing trial accounts, especially accounts that won't be publicly published.

Accounts where there is a limited understanding of the resource and where there is limited monitoring and measurement of a resource.

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

Water accounts need to make sense as a "whole".

It is often difficult to identify reliable sources for "transactions" for water accounting and; even if a reliable source is identified in many cases the transactions come from systems built for a purpose other than water accounting.

As a consequence of using non-accounting systems as a source of transactions, "irreconcilable differences" often occur.

This approach is valid however if the accounts as a whole reflect the overall understanding of the water resource. Expert water managers build up this understanding over a long period of time through experiences and the use of the best available science.

This will result in an assurance practitioner needing to take a more holistic approach to assurance rather than relying solely on a transaction based methodology.

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

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

Yes – but they can be in a separate document from the standard.

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?

Yes - but this might have to wait until there are sufficient practical examples to draw upon - that time may be a few years away.

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

Yes - these could be included in an appendix or an attachment to the standard.

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

No

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

N/A

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

N/A

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

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

Traditional procedures will not cover all aspects of water accounting assurance – the “unreconciled difference” and “off-balance sheet water” are examples where new approaches will need to be developed.

There will be considerably more reliance on subject matter expert opinions and advice than would be experienced in a normal financial assurance engagement.

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

Answering fundamentals that are taken for granted in a financial audit will present major challenges.

An example of which would be answering where do my “transactions” come from, how reliable are they and are all the transactions equivalent? or am I adding apples oranges and pears together and getting a nonsense result?

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

YES

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?

Will the work of the “expert” have the respect of others in the water industry? – some of whom are sceptical about the usefulness and relevance of water accounting and the role of non-water professionals in providing assurance services.

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

Maybe

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?

There may be certification requirements and peer review requirements for groundwater and surface water models used as a source of information for water accounts.

The assurance practitioner may need to form a view on how much reliance can be placed on the opinion of the external certifier and peer reviewer.

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?

Not currently. We are not aware of any work that could be relied upon by an external assurance practitioner and maybe.

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?

Peer review of water accounts - proposed arrangement between some States.

Peer review and certification of groundwater models used for water accounting.

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

In many instances they will obviate the need for an assurance engagement.

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.

No

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?

Not sure.

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

None – nor should they issue an opinion on things that might happen in the future.

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

The assurance practitioner should not issue an opinion on things that might happen in the future.

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

Yes – significant subsequent events up until the assurance practitioner signs off on the water accounts should be monitored and reported on by the assurance practitioner if they are not adequately disclosed in the notes to the accounts.

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.

No comment.

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

We can envisage that GPWAR accounts may not always be prepared on an annual cycle – for example water accounts may be prepared to support water allocation plans that are issued on a five yearly basis.

Also where water accounts are prepared annually, they may only be assured in the year that a new water allocation plan is released (ie in the 5th year).

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?

We assume this means that a more thorough examination in one year reveals issues not discovered in previous examinations.

We would expect that the assurance practitioner would explain this eventuality in their opinion – we do not think this eventuality would devalue the assurance process.

Other comments not covered in the questions above

No