

11 November 2011

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

By email to: edcomments@auasb.gov.au

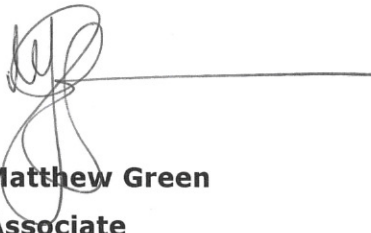
Dear Ms Kelsall

CONSULTATION PAPER "ASSURANCE ENGAGEMENTS ON GENERAL PURPOSE WATER ACCOUNTING REPORTS"

We value the opportunity to submit comments regarding the Auditing and Assurance Standards Board's ("AUASB") consultation paper on assurance engagements on general purpose water accounting reports.

We have taken the time to review the draft consultation paper and have included our responses to the specific questions in the attached appendix to this letter. Please accept our apologies for the late lodgement of this correspondence.

Yours sincerely



Matthew Green
Associate

Appendix: Response to specific questions in 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.

Our preference is the development of a new standard that refers to existing AUASB standards, described in the consultation paper as alternative 3.

We consider that the specific material relevant to these engagements can be captured in a specific standard. We do not consider that the specific standard needs to repeat the general principles and guidance contained in other generally applicable assurance standards.

We consider that this approach has both cost and efficiency benefits for the development of the standard, for practitioners and for the economy generally.

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

We agree with the principles-based qualification requirements as proposed in the consultation paper. We believe under the principles-based approach all practitioners eligible to provide assurance on GPWAR will be allowed to perform the assurance engagement on GPWAR whereas under the prescriptive approach eligible practitioners may be excluded.

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

In our opinion the suggested qualifications' requirements as listed in the guidance paragraphs 23-24 are appropriate.

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

No comment.

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?

We consider that application of the assurance standard should be available to all practitioners with the appropriate skills and who can meet the appropriate ethical and quality control requirements.

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

We consider that a good benchmark for accreditation in the ability to complete assurance engagements is registration as a company auditor with the Australian Securities and Investments Commission ("ASIC").

We note ASIC's comments in their "Regulatory Guide 187: Auditor Rotation" that "We believe that the competitive market for RCAs in Australia means that an alternative suitable auditor will be available in most cases." We consider that the market place is competitive and that the market will fulfil the needs of entities that require assurance for their GPWAR.

Given the above comments, we consider that the requirement for providing an assurance report may be set as registration with ASIC as a company auditor.

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

Yes, we agree that the proposed assurance standard should include a requirement relating to compliance with relevant ethical principles, including independence. Any assurance engagement undertaken should be assessed for independence as independence is a critical feature in forming an independent opinion.

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, we consider that the independence requirements and guidance in paragraphs 38-39 are appropriate.

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.

We do believe that the safeguards relating to threats to independence can be put in place to ensure the integrity of the assurance process. An assurance practitioner shall make assessment of threats to independence and put safeguards around the identified threats to minimise the threat to an acceptable level when undertaking an engagement. Section 290 and 291 of APES 110 *Code of Ethics for Professional Accountants* provides guidance on threats to independence and safeguards that may be put in place to ensure the integrity of the assurance process.

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.

No comment.

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?

No, we consider that assurance given on a GPWAR should exclude the contextual statement. We refer to the common approach for *Corporations Act 2001* audit engagements where the director's report is excluded from the scope of the assurance report. We consider that this approach should be retained for GPWAR engagements. We note the requirements of ASA 720 *The Auditor's Responsibilities Relating to Other Information in Documents Containing an Audited Financial Report* and consider that these requirements could be mandated, by reference, in the guidance for assurance engagements for GPWAR.

We are not strongly opposed to including the "Accountability Statement" in the scope of the assurance work.

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

No.

We consider that the time and expense in gaining assurance on the components that might be included in the Contextual Statement will not result in a productive outcome.

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.

We consider that assurance can be provided on the majority of the three aspects in the Accountability Statement, but that it may be difficult to obtain evidence regarding the application of best practice (see paragraph 50(c)).

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

We consider it may not be possible to fully address the unaccounted-for difference, however, procedures will need to be developed around this line item to gain assurance on the balance.

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

No comment.

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

We believe the assurance standard should provide for both reasonable and limited assurance.

We consider that given the existence of an "unaccounted for difference" in GPWARs, attaining a reasonable level of assurance may be less cost effective than limited assurance. In addition, the existence of the "unaccounted for difference" is indicative of a factual situation in which high/reasonable assurance is actually unattainable owing to the evolving nature of the systems and processes in place currently to measure, record and report water assets and liabilities.

We consider that limited assurance is likely to meet the needs of the users and do so in a cost effective manner.

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.

No comment.

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

We agree that a single-layered assurance report would be preferable for GPWAR. Multi-layered assurance reports will make the assurance report more complicated and would likely lead to a developing expectation gap regarding the assurance reports.

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.

We agree that the proposed standard for assurance engagements of GPWAR should include requirements and guidance relating to the content of the assurance report to promote consistency in assurance reporting. In addition, we consider that the proposed guidance should include illustrative examples with appropriate legislative references.

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

Yes.

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, it would be appropriate to include the requirements and guidance on different types of assurance conclusions that may be included in an assurance report on a GPWAR.

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

Yes.

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

Yes.

We consider it may be beneficial to include this in the assurance standard as it will provide the assurance practitioner with relevant guidance in the application of the assurance standard.

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

No comment.

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

No comment.

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?

We consider that the traditional assurance procedures would be relatively simple for an experienced assurance professional to apply to a GPWAR. We consider that it might be necessary to obtain specialist support in understanding scientific elements of hydrological studies and related elements that are inputs to a GPWAR, but that this is a normal assurance procedure that is currently available to assurance practitioners.

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

No comment.

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

We consider that there is adequate guidance contained in ASA 620 *Using the Work of an Auditor's Expert*. If it is really considered necessary, additional guidance may be included but we are not convinced that it is required.

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?

Special consideration should be considered based on ASA 500 *Audit Evidence* and ASA 620 *Using the Work of an Auditor's Expert*.

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

As for our response to questions 29 and 30, we consider that the assurance standards contain sufficient guidance regarding the use of experts, whether management's or auditor's. If it is really considered necessary, additional guidance may be included but we are not convinced that it is required.

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?

Special consideration should be considered based on ASA 500 *Audit Evidence* paragraph 8.

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?

No comment.

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?

No comment.

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

No comment.

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 comment.

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?

We consider that the assurance standards contain sufficient guidance for using the work of component assurance practitioners in ASA 600 *Special Considerations – Audits of a Group Financial Report (including the Work of Component Auditors)*. If necessary, this guidance could be referenced in any assurance standard.

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

With reference to our comments for earlier questions, we consider that limited assurance is more appropriate for a GPWAR and that in such a circumstance, the assurance practitioner should be able to obtain sufficient appropriate audit evidence to support the Future Prospects disclosures.

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

Yes, we consider that the consideration of future information is difficult for assurance practitioners and that gaining sufficient appropriate evidence to support a future based statement is complex and likely to be prone to error as future events are inevitably unlikely to occur as expected.

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

Yes the proposed assurance standard for GPWAR should include requirements regarding subsequent events.

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?

No comment.

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?

Obviously, the key implication would be that limited assurance engagements were not adequately providing the required assurance. Given the existence of the "unaccounted for difference" in the reports, we still consider that limited assurance is more appropriate for these engagements.