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The Chairman  
Auditing and Assurance Standards Board  
PO Box 204  
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7 November 2011

Contact **Adrian King**  
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Dear Madam

**Consultation Paper**  
**Assurance Engagements on General Purpose Water Accounting Reports (GPWAR)**

We are pleased to have the opportunity to comment on the above Consultation Paper issued jointly by the Auditing and Assurance Standards Board (AUASB) and Bureau of Meteorology (BOM) of the Australian Government.

Overall, we are very supportive of this joint initiative between the AUASB and BOM and the process to date for the development of an assurance standard on GPWAR. Our overarching comments are included below. Appendix 1 to this letter responds to the specific questions raised in the Consultation Paper.

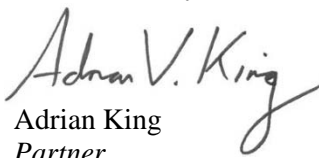
**Overarching comments**

Whilst we are supportive of the need to progress with the development of an assurance standard for a GPWAR, there will be a need to revisit certain of the key issues raised in the Consultation Paper, once the content of a GPWAR and the Water Accounting Standard (AWAS1) have been finalised. We assume our further input can be provided in response to the exposure draft for the proposed assurance standard. However, if other opportunities arise to revisit the key concepts once these documents have been finalised, we are keen to provide our input.

We strongly encourage the proposed assurance standard to leverage and achieve consistency with the developments currently underway for the development of other related assurance standards, for example, ISAE 3410 *Assurance on a Greenhouse Gas Statement*.

Should you have any questions in relation to this submission, please do not hesitate to contact me.

Yours sincerely

  
Adrian King  
Partner

## Appendix 1 – Responses to specific questions included in the Consultation Paper

Our responses to the questions in the Consultation Paper are set out below.

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

We consider **alternative 3** to be the most appropriate and recommend the proposed assurance standard on a GPWAR should focus on water specific requirements and guidance and utilise the existing body of AUASB Standards. This is also the approach being adopted by ISAE 3410.

We do not believe that a quality assurance engagement will be achieved by following alternative 1 and using the existing suite of AUASB Standards. There are a number of unique issues associated with the preparation of a GPWAR that may not be effectively addressed without specific guidance.

Whilst there are clear benefits for an assurance practitioner of alternative 2 and developing a stand-alone assurance standard, we do not consider that incorporating all relevant guidance from the body of standards issued by the AUASB into one standard would be appropriate or result in a standard that would be easy to apply.

**2. 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, we agree with the principles based approach outlined in paragraph 23 of the consultation paper.

In order for this approach to be effective though, it is important that quality control and monitoring of all assurance practitioners undertaking these engagements.

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

Yes, we consider the suggested qualifications requirements in paragraph 23 and 24 to be appropriate. It should be clear in the standard that these apply to the engagement team collectively.

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

Except for in respect to quality control as mentioned in response to question 2, we do not consider there to be any other significant requirements or guidance necessary.

- 5. 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 it to be appropriate for the standard to be able to be used by a broader set of practitioners than the “traditional” users of assurance standards issued by the AUASB.

We strongly believe that the issue of who is able to use the proposed assurance standard relates more than just to professional competence. Compliance with the requirements of the proposed assurance standard alone may not result in a high quality assurance engagement unless the practitioner complies with requirements that are at least equivalent to the Code of Ethics for Professional Accountants as issued by the Accounting Professional and Ethical Standards Board as well as the practitioner having a system of quality control comparable to that required by ASQC1 issued by the AUASB.

One key challenge is how compliance with these equivalent requirements can be monitored and enforced across practitioners who are subject to such monitoring. We encourage the AUASB/BOM to consider this issue and the necessary measures to be implemented to achieve high quality assurance engagements by all users of the proposed assurance standard.

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

As noted in response to question 2, we do not consider it necessary for there to be a formal accreditation requirement.

If a formal accreditation is deemed necessary, we strongly recommend leveraging the existing processes established by ASIC for Registered Company Auditors, DCCEE for Greenhouse and Energy Auditors and the ICAA and CPA membership obligations.

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

Yes, we strongly support the need for practitioners who perform assurance engagements on GPWAR to comply with relevant ethical principal including independence and that these requirements should be included in the standard. See our response to question 5 above.

- 8. 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 believe including such a paragraph with supporting guidance is appropriate.

- 9. 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, we believe appropriate safeguards can be put in place to manage any self interest or self review threat. Examples may include ensuring that experts utilised by the assurance practitioner are not used by the water reporting entity.

- 10. 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*.**

We are not aware of any other specific codes or professional requirements that contain such requirements.

- 11. 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?**

As the content of GPWAR and the framework (criteria) governing its preparation is still to be finalised, this point will need to be revisited. However, based on the current draft documents, except for the exclusion of the Contextual Statement, certain aspects of the Accountability Statement and the Future Prospects note from the scope of the assurance engagement, we believe that the remainder of the GPWAR should be covered by the assurance process.

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

No.

We believe that including the Contextual Statement within the scope of the assurance process could lead to a potentially significant expansion in the work effort required and therefore an increase in cost that outweighs the benefit derived.

If the Contextual Statement was to be included within the scope of the assurance process, there would need to be clear criteria developed (and included in AWAS 1) to govern the content and quality of the information to be included in the contextual statement. This would be fundamental in order to satisfy one of the pre-conditions for an assurance engagement ie. that there is a suitable criteria to allow the assurance process to be meaningful and achieve consistent high quality.

We recommend that the most effective approach would be for the proposed assurance standard to incorporate the relevant principles from ASA 720 with regard to reading the other information in the GPWAR to identify any material inconsistencies or misleading statements. We are aware that ISA 720 is currently being revised by the IAASB and recommend that the proposed assurance standard incorporates the appropriate elements from the revised ISA/ASA 720.

- 13. 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 do not believe that assurance should be required on all three aspects of the Accountability Statement.

We believe that assurance should only be required on the first element of the Accountability Statement in relation to the GWPARG being prepared in accordance with Australian Water Accounting Standards.

We do not consider that it would be cost effective to require assurance to be provided on the management and operations of the water reporting entity. In order to provide assurance on the management and operations, this would require a substantial increase in work effort by the practitioner to cover all applicable external imposed regulations as well as any internally identified best practice, as well as the need to cover the whole of the reporting period. This would also require additional effort on behalf of the water reporting entity to prepare and maintain documentation and evidence of compliance.

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

We consider it would be appropriate to limit the assurance procedures in relation to the unaccounted-for difference to a “reasonableness test” based on the practitioners understanding of the specific situation and the practitioners professional judgement.

We do not consider it would be effective to require any further additional procedures due to the nature of these differences and the potential difficulty in obtaining any persuasive evidence as well as the potential cost involved.

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

We are not aware of any other matters of significance not covered elsewhere in our response to the Consultation Paper.

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

Unless a specific legislative requirement is established that requires limited assurance for a GPWAR (in which case the proposed assurance standard could just cover reasonable assurance), we consider that reasonable and limited assurance should be addressed in the proposed assurance standard.

**17. 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.**

Limited assurance may be appropriate where the entity holds water assets as an incidental part of their operation and does not supply water to other parties as a component of its business.

Limited assurance may also be appropriate where a report is not being prepared for the general public, but is being prepared for a limited number of users as part of agricultural practices.

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

Where there are rational reasons for the different levels of assurance to be provided on the different elements of the GPWAR, in principle we do not see any reason why it would not be possible. Where this was the case, the assurance report would need to clearly describe the different levels to avoid any confusion to the reader, however, we believe this is achievable.

- 19. 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. The proposed assurance standard should include requirements and guidance related to the assurance report in a format similar to current standards issued by the AUASB.

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

Yes. We strongly agree that illustrative example reports should be included in the proposed assurance standard.

- 21. 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. In addition, we recommend including a reference to further guidance being available in ASA 705.

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

Yes. We see no reason to deviate from the types of assurance conclusion included in the Consultation Paper which are consistent with the other standards issued by the AUASB.

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

Yes. We see no reason for these to be any change to the concepts established by the other standards issue by the AUASB.

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

Example of Emphasis of Matter may be:

- Restatements of prior year information
- Significant uncertainties or assumptions that are fundamental to understanding the GPWAR

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

Examples of Other Matter Paragraphs may be :

- In accordance with ASA 720, where the practitioner reads information contained in the GPWAR that is outside the scope of the assurance engagement, and that information is considered to be materially inconsistent with the information that has been covered by the assurance engagement or is considered to be misleading
- Possibly in the first year of preparation of the GPWAR and/or first year of assurance

**26. 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?**

We consider that it is necessary to use a principles based approach to materiality, consistent with ASA 320 *Materiality and Audit Adjustments*, especially as not all information will be numeric.

We also consider however that quantitative guidance such as included in paragraph 15 of AASB 1031 *Materiality*, would be beneficial to achieve consistency in the both the preparation and assurance of the GPWAR.

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

No.

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

We consider the procedures described in paragraph 105 of the Consultation Paper to be sufficient and comprehensive.

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

Yes. In order to provide quality and consistency, there is likely to be significant need for the use of experts in assurance engagements on GPWAR. We strongly support the need for requirements and guidance to be included in the proposed assurance standard consistent with the requirements of ASA 620 *Using the Work of an Auditor’s Expert*.

**30. 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?**

We do not consider that there are any special considerations not contemplated by ASA 620.

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

Yes. We also consider this to be an important area for requirements and guidance to be included in the proposed assurance standard. The principles should be consistent with those for using an assurance practitioner's expert.

**32. 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?**

We do not believe so.

**33. 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?**

We are not aware of any internal audit functions that currently perform work related to water accounting and reporting. We therefore do not consider it necessary to include guidance other than possibly a reference to ASA 610 *Using the Work of Internal Auditors* where guidance can be found where applicable.

**34. 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?**

We are not aware of any QA/QC or peer review specific functions, however, the preparation of water reporting requires an appropriate framework of internal control to be in place.

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

We see a QA/QC or peer review function to be an area for the assurance practitioners to understand and determine the extent to which, if any, the controls in place can be tested and relied upon as part of the evidence gathering process to support the assurance conclusion.

**36. 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.

**37. 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?**

Based on our response to question 36, we do not believe this to be necessary. However, depending on the number of group water reporting entities identified, guidance may be required.



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

Our recommendation is that the Future Prospects note should be excluded from the scope of the assurance engagement. An alternative option may be to require a lower level (limited) of assurance.

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

Yes. The most significant challenges relate to :

- ability to obtain persuasive evidence
- time and cost to obtain a sufficient understanding to effectively challenge and be sceptical

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

Yes. We consider the concept of subsequent events is relevant to an assurance engagement of a GPWAR. The requirements and guidance should be consistent with those included in ASA 560 *Subsequent Events*.

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

During the recent drought, the rights of entities in the Murray Darling Basin to carry over water was affected by decisions of Governments to ensure critical human water needs. This resulted in those entities losing their water rights. This increases the uncertainty that assurance practitioners face and requires them to be aware of the policies that Governments implement in extreme times.

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

In order for the assurance process to be effective and to provide confidence that the water reporting entity reporting appropriately and is handling the management of water effectively, we believe that the assurance should be required each time the GPWAR is prepared.

**43. 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 do not believe that different levels of assurance for different periods is an appropriate approach. This is likely to lead to both confusion on the part of the user of the assurance report and practical challenges to the assurance practitioner, such as in relation to opening balances.