



**Australian Government**  
**National Water Commission**

**Chief Executive Officer**

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

By email: [edcomments@auasb.gov.au](mailto:edcomments@auasb.gov.au)

Dear Ms Kelsall

The Commission appreciates the opportunity to provide feedback on the consultation questions for the development of an assurance standard for General Purpose Water Accounting Reports (GPWAR).

The attached responses are based on our knowledge of the National Water Initiative, our experience with auditing National Performance Reports for water utilities and undertaking assessments of water planning and reform.

Our comments generally support the development of a specific water assurance standard, based strongly on existing assurance standards and practice. We consider that guidance on the implementation of such a standard will be needed, especially in the short-term, but that such guidance should not sit within the standard itself.

Finally, we have not made comment on many of the questions where we consider that current water reporters and assurance practitioners are likely to be better placed to provide informed and appropriate comment.

Should you have any questions in relation to this submission, please contact myself on 02 6102 6055.

Yours sincerely

A handwritten signature in black ink, appearing to read 'James Cameron'.

James Cameron  
Chief Executive Officer

4 November 2011





**Australian Government**  
**National Water Commission**

**Joint AUASB/WASB Consultation Paper**

**Assurance Engagements on General Purpose Water Accounting Reports**

**Comments on Consultation Paper**

**Question 1 - 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.**

The Commission supports the development of a new standard that refers to existing assurance standards – alternative 3.

This is based on:

- The need to recognise the special subject matter reported in GPWAR
- The strong existing body of knowledge and practice supporting the existing AUASB standards
- The benefits of aligning water assurance standards with other common standards to achieve gains in confidence in water information reporting

**Question 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.**

The Commission agrees.

This is based on:

- The evidence of the teams undertaking the developing practice of water accounting
- The general red-tape required for a prescriptive regime.

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

No comment.

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

No comment.

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**Question 5 - 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?**

The Commission considers that only those persons with particular accreditation from certain bodies be considered as appropriate.

This is based on:

- The ethical oversight of those other bodies that are designed to protect the public interest
- The additional confidence provided by public faith in those professional bodies

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

No comment.

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

The Commission agrees.

**Question 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?**

No comment.

**Question 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?**

No comment.

**Question 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*.**

No comment.

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**Question 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.**

The Commission considers that the assurance statement should be on the GPWAR as a whole, having regard to our comment to Question 12 below. This based on our expectation that readers of GPWAR will expect this to be the case.

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

The Commission considers that the assurance statement should treat the contextual statement as a 'directors report', consistent with ASA720. This will allow the water reporting entity more freedom to include a broader range of relevant information in the contextual statement than if assurance was provided on its content.

**Question 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.**

No comment.

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

No comment.

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

No comment.

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

The Commission considers that it is likely that both reasonable and limited assurance will be needed.

This is based on:

- Its consistency with ASAE3000
- Existing practice using ASAE 3000 and others has identified the need for 'weaker' forms of opinion, at least in the short to medium term
- The auditability of GPWAR has not been extensively tested yet

**Question 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.**

The Commission considers that the development of fully auditable GPWAR is likely to take some time, and that it will be important to have interim steps between 'un-audited' and 'audited' reports, in order for the assurance process and practice to become established.

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

The Commission favours single-layered assurance reports, as these are more likely to lead to a more easily understood report. Audit programs in many fields often experience an 'expectation gap' that weakens the credibility of audit reports, and multi-layered reports may add to, rather than reduce such an expectation gap.

**Question 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?**

The Commission considers that additional guidance is likely to be useful in the short to medium term, but that such guidance does not need to be in the assurance standard.

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

The Commission considers that demonstration reports are likely to be useful in the short to medium term, but that such reports do not need to be in the assurance standard.

**Question 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?**

The Commission considers that requirements are necessary, and should be included in the assurance standard. Supporting guidance is likely to be useful in the short to medium term, but that such guidance does not need to be in the assurance standard.

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

The Commission considers the types of conclusion discussed in the paper are relevant, as they are consistent with other audit engagement conclusions.

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

The Commission considers that the assurance standard should include requirements regarding emphasis of matter and other matter paragraphs, but that supporting guidance should not be included in the standard.

**Questions 24 and 25 – Examples**

No comment.

**Question 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?**

The Commission notes difficulties that other natural resource programs have experienced regarding the concept of materiality, and considers that establishment of materiality for assurance purposes should be left to the practitioners judgement, and only principles regarding the definition of materiality should included in an assurance standard. The Commission expects that AWAS 1 will appropriately define materiality for reporting purposes.

**Question 27 - Are there any specific considerations necessary in the application of 'traditional' assurance procedures to assurance engagements on GPWAR?**

No comment.

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

No comment.

**Question 29 - Should the proposed assurance standard include requirements and guidance relating to using the work of assurance practitioners' experts?**

The Commission considers that requirements relating to using the work of experts should be included in the standard (with reference to existing standards), but that supporting guidance, while likely to be useful, should not be in the standard.

**Question 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?**

The Commission considers that special attention is likely to be needed in ensuring the independence (and objectivity) of water experts used to inform audit work, given the limited number of water accounting practitioners currently available. Further, the Commissions considers there should be opportunities and support to foster the grown of water accounting and assurance practitioners.

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

The Commission considers that the assurance practitioner should be auditing, not using, the work of experts employed (or engaged) by the reporting entity.

However, given the relatively limited nature of water industry experts, and that this is a new practice, in the short-term reliance on technical work commissioned by the entity may not be unreasonable provided the auditor understands the nature of the work and the competence and expertise of that expert.

**Question 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?**

No comment.

**Question 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?**

No comment.

**Question 34 and 35 – QA/QC**

No comment.

**Question 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 comment.

**Question 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?**

The Commission considers that while such requirements may be useful, they should be limited to the type of wording already within current audit standards such as ASAE 3100.

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

The Commission considers that assurance over the entity's assumptions, calculations and disclosures relating to the water report entity's ability to continue to fulfil its purpose for the future 12 month period, as outlined in the model reports and consultation draft, would be valuable.

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

No comment. See above.



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

The Commission considers that the standard should include requirements regarding subsequent events, as they may be material to the presentation of values within the GPWAR.

**Question 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.**

No comment.

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

The Commission considers that given the early stage of development of the assurance process for GPWAR, it is likely that provision of assurance may be less frequently than preparation frequency may be necessary; however it is not ideal in the long-run. Such an approach using staged implementation would allow for appropriate evaluation of practice between engagements, which is likely to lead to smoother development of assurance practice and a larger pool of appropriately qualified practitioners.

**Question 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?**

The Commission considers that this cannot be answered until a better understanding of users is gained. At this stage, however there are not likely to be any adverse implications of varying degrees of assurance, as GPWAR are currently being used without assurance at all. At all times the level of assurance must be clear to all users.

It should be noted the National Performance audit requirements are currently being reviewed to assess if they continue to be relevant and suitable for a more mature stage of implementation.

