



The Chairman  
Auditing and Assurance Standards Board  
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31 October 2011

Dear Chairman

**PwC response to 'Consultation Paper: Assurance Engagements on General Purpose Water Accounting Reports'**

We appreciate the opportunity to provide comment on the Consultation Paper: Assurance Engagements on General Purpose Water Accounting Reports (the Consultation Paper).

***Consideration of a Guidance Statement rather than an AUASB Standard***

We agree in most part with the AUASB and WASB's comments and conclusions in the Consultation Paper. However, we believe the AUASB and the WASB should consider the development of a Guidance Statement, as opposed to solely considering the three alternatives proposed in paragraph 1 of the Consultation Paper:

- Using existing AUASB standards
- Developing a new, standalone standard
- Developing a new standard which incorporates references to existing AUASB standards, where relevant.

Per the AUASB website, '*Guidance statements provide guidance to assist the assurance practitioner to fulfil the objectives of an assurance engagement and include explanatory details and suggested procedures on specific matters for the purpose of understanding and complying with AUASB standards*'. Therefore, we believe that a hybrid of alternatives 1 and 3 could mean that existing standards are utilised and a new Guidance Statement, which incorporates references to existing AUASB standards, would be sufficient for the assurance practitioner.

Given the General Purpose Water Accounting Report (GPWAR) consists of non financial information, we believe that ASAE 3000 'Assurance Engagements other than Audits or Reviews of Historical Financial Information' is an appropriate existing standard for the assurance practitioner to follow, with references to Australian Auditing Standards (ASAs) where further information is required, for example, Subsequent Events or Using the Work of Experts. We believe ASAE 3000 should be supplemented by a Guidance Statement to provide further guidance to the assurance practitioner in applying ASAE 3000, and other ASAs where relevant, to GPWAR.

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The adoption of a Guidance Statement approach, rather than the development of a separate standard, means that where standards are updated, the Guidance Statement may not require revision.

Examples of existing Guidance Statements which are used in a similar context are GSO09 Auditing Self Managed Superannuation Funds, and GSO13 Special Considerations in the Audit of Compliance Plans of Managed Investment Schemes and GSO19 Auditing Fundraising Revenue of Not-for-Profit Entities.

***Response to Questions for Specific Comment***

We have provided our response to Consultation Paper questions for specific comment in Appendix 1.

We would be happy to elaborate on any of the points raised or discuss our views further with you if required. If you have any questions, please feel free to contact me or Nicola Moran on 03 8603 2330.

Thank you for providing us with the opportunity to respond to the Consultation Paper. We commend the Auditing and Assurance Standards Board (AUASB) and the Water Accounting Standards Board (WASB) for the open consultation process which has been adopted in to-date in relation to the development of an assurance framework for GPWAR.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Liza', written in a cursive style.

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## Appendix 1 – Response to specific questions for comment

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

Of the three options, we believe that a hybrid of Alternatives 1 ‘Use existing AUASB standards’ and Alternative 3: ‘Develop a new standard that refers to existing AUAASB standards’ would be most appropriate.

We believe that existing AUASB standards, specifically ASAE 3000, are applicable to GPWAR and therefore a Guidance Statement would be most appropriate, to provide guidance as to how to apply the existing standards in the context of providing assurance over GPWAR, rather than issuing a new standalone standard. This would allow for matters such as the Use of the Work of Experts, the Use of the Work of Internal Auditors, and Emphasis of Matters and Other Matters, to be referred to other AUASB standards.

Note. Whilst we believe a Guidance Statement would be more appropriate than the development of a standard, we have referred to the proposed assurance framework throughout the remainder of our response as ‘the standard’ in line with the Consultation Paper.

### **Q2 Do you agree that the qualifications’ requirements in the proposed assurance standard should be principles-based and not prescriptive?**

Given the breadth of assurance practitioners who may be seeking to undertake assurance over GPWAR, we believe it may be beneficial to adopt a prescriptive approach to the qualification requirements to ensure that all assurance practitioners are adequately qualified.

We do agree with the principle requirements of skills, knowledge and experience, outlined in paragraph 23 of the Consultation Paper.

An example of where principles-based requirements are applied, but where assurance practitioners are registered, is the Greenhouse and Energy Auditor process which the Department of Climate Change and Energy Efficiency have developed and maintain.

In this model, proposed Greenhouse and Energy Auditors are required to complete an application form outlining their employment, tertiary qualifications, suitability assessment, memberships of professional bodies and a statement outlining their National Greenhouse and Energy Reporting legislation knowledge. Audit experience, audit qualifications and referees are also required.

Whilst maintenance of a register of approved assurance practitioners may be cumbersome, it would ensure that an assessment is performed over the skills, knowledge and experience of the assurance practitioner.

We agree that this may not be a requirement which is outlined specifically in the standard.

### **Q3 If you answered ‘yes’ to Question 2, are the suggested qualifications’ requirements and guidance in paragraphs 23 – 24 appropriate?**

N/A.

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

Please refer to our response in Q2.

**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 believe that assurance practitioners performing assurance over GPWAR may stem from a broad range of backgrounds. Accreditation with certain bodies, such as being a Registered Company Auditor (RCA), regulated by Australian Securities Investment Commission (ASIC), could be used as evidence of skills, knowledge and experience when registering assurance practitioners.

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

Please refer to our response in Q5.

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

Yes, we believe the assurance standard should refer to the principles in APES 110 'Code of Ethics for Professional Accountants'. However, only professional accountants are required to comply with APES 110 and the assurance practitioner for GPWAR may stem from other backgrounds other than accounting and therefore it may be appropriate to specific such requirements in the standard itself.

**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 agree with the wording in paragraphs 38 and 39.

**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 suggest that the safeguards as listed in APES 110 would be appropriate in order to reduce the threats to independence.

An additional safeguard may be the requirement of the assurance practitioner to sign an independence declaration either prior to commencing the engagement, or at the time of signing the assurance report.

**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**

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We are not aware of other professional groups or bodies that may have similar ethical requirements.



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

No, we do not believe that assurance should be provided on the GPWAR as a whole. Please refer to our response for Q12.

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

No. Given that the nature of the Contextual Statement is similar to that of the Directors report in a Financial Statement context, we believe that the Assurance Practitioner should read the Contextual Statement in terms for consistency with the audited components of the GPWAR, but that assurance is not provided over the Contextual Statement.

**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 believe that assurance can be provided on parts (a) and (b). With regards to part (c), we believe that assurance can be provided on whether best practices have been applied, if there are appropriate criteria in place. If there are no specified criteria for which the application of best practices can be measured, then part (c) may be more appropriate in the Contextual Statement (if not audited).

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

No, we do not believe specific or additional procedures should be specified for the unaccounted-for difference balance.

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

No, we do not believe there are other elements that present complexities.

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

Yes. A limited assurance engagement will require less time and cost than a reasonable assurance engagement. However, its use will be determined by the needs of the intended users. If there is a possibility that the intended users would request a limited assurance engagement, the standard should allow for this option.

If a Guidance Statement approach is used, this can refer to ASAE 3000 which allows for both reasonable and limited assurance.



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**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.**

Please refer to our response to Q16. This will depend on the needs of the intended users.

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

Yes, we believe that single-layered assurance reports are preferable as they will be less confusing for the intended users of the report.

**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 believe this guidance is essential to create consistency and allow comparability between assurance reports over GPWAR.

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

Yes. Illustrative reports will create consistency in reporting between Assurance Practitioners, which will benefit the intended users of the GPWAR information.

**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 GPWAR?**

Yes. The standard should provide guidance on the various conclusions that can be reached in an Assurance report, i.e. unqualified, modified, adverse, disclaimer. Example reports covering a range of such scenarios would be beneficial to assurance practitioners

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

Yes, we believe these are relevant.

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

Yes. We believe the Assurance Practitioner should be given the option of an Emphasis of Matter or Other Matter paragraph in the assurance report, but only if they are used in the correct context. Therefore, it may be beneficial to reference *ASA 705 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* for further guidance for the assurance practitioner.

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

An example emphasis of matter could be raised if there is a measurement uncertainty over the data. For example, ED AWAS 1 requires that metered data be used, but not the requirements for the calibration of those meters. If the assurance practitioner has doubts over the calibration of meters, this may give rise to an emphasis of matter paragraph.

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

An Other Matter may be any item not contained within the GPWAR, for example, developments in the water industry which would affect the users understanding of the GPWAR statements.

**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 engagement on GPWAR?**

Yes, due to the importance of qualitative factors in materiality, and in agreement with the factors described in paragraphs 92 – 100, we believe a principles-based approach to materiality is appropriate.

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

We believe that these ‘traditional’ assurance procedures are appropriate. However, it is important that the assurance practitioner uses the work of experts where required.

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

No.

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

Yes. Given the specialist nature of the subject matter being assured, and the fact that assurance teams are likely to have a spectrum of skills sets, it is important that guidance is provided on the use of the work of experts.

**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?**

No. We believe that the same rules would apply as outlined in 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?**

Yes. Management’s experts have been used in assurance engagements of varying natures.

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**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?**

The assurance practitioner should be required to consider the independence and objectivity of the management's expert, and any incentives they may have for fraud.

**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 PWAR preparer and, if so, should the assurance standard provide for the use of the work of internal audit by the assurance practitioner?**

No, we are not aware of any internal audit functions that currently perform the above work. In future, there may be the option for internal audit functions to perform work which the assurance practitioner may use in the process of forming his conclusion. We suggest that the standard reference further guidance available in ASA 610 *Using the Work of Internal Auditors*.

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

No, we are not aware of such functions.

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

This would depend on the nature of the review and whether those reviews are performed objectively and independently, considering similar factors to Q32, when using a management's expert. The QA / QC review may be considered a control and would be tested by the assurance practitioner for design and operating effectiveness, as per the assurance procedures listed in paragraph 105.

**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?**

The propose standard should provide requirements and guidance for group assurance practitioners where intended users will require an assurance report over a group water GPWAR.

**Q38 What should be the assurance practitioner's responsibilities regarding information included in the Future Prospect notes in a GPWAR?**

We agree with the WASB's proposal for the Future Prospects notes as outlined in paragraph 134. However, we do believe that the WASB should have careful consideration of considering the Future Prospects note in the same nature as a Going Concern note in a Financial Statement context, as there are many external factors which are not controllable by those preparing the GPWAR, such as lack of rainfall.

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

The challenge is whether an expectation gap exists between the intended users' understanding of the Future Prospects note as to whether assurance is being provided directly over this note, or whether it forms part of the assurance practitioner's evidence as to whether a material uncertainty exists that may cast doubt on the water report entity's ability to fulfil its purpose.

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

Yes. We agree with the rationale outlined in paragraph 136.

**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.**

The following are examples of adjusting events after the reporting period which may arise:

- a. The water reporting entity may have significant legal action which was settled subsequent to the year-end date, which changed the water rights of the water reporting entity during the reporting period.
- b. If a significant leakage of water was identified that was unknown at the time at the end of the reporting period, but identified prior to the signing of the accountability statement, this may be an adjusting event after the reporting period.

The assurance practitioner's procedures would depend as to whether previously applied audit procedures have provided satisfactory conclusions. For example, in example (a), the assurance practitioner may have known the potential liability arising from the legal action, prior to it being settled.

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

No. We believe that the release of the GPWAR without assurance would add complexities to the intended users' understanding of the information.

**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?**

If a limited assurance engagement had been performed in the prior period, a reasonable assurance engagement would likely result in a modification in the assurance practitioner's conclusion due to the lack of sufficient and appropriate evidence over the opening balances of the GPWAR unless additional assurance was subsequently sought.

The usefulness of a modified assurance report due to a limited assurance engagement being performed in the prior period would be reduced.

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