

31 October 2011

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

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

Dear Ms Kelsall

**Consultation Paper: Assurance Engagements on General Purpose Water Accounting Reports**

CPA Australia, the Institute of Chartered Accountants in Australia and the Institute of Public Accountants (the Joint Accounting Bodies) are pleased to respond to the Consultation Paper: *Assurance Engagements on General Purpose Water Accounting Reports*.

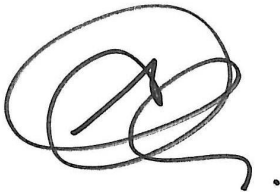
The Joint Accounting Bodies represent over 190,000 professional accountants. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

We recognise and support the need for assurance services to complement the water reporting practice currently being developed by the Water Accounting Standards Board (WASB). We commend the joint initiative between the AUASB and WASB to develop a suitable standard for undertaking assurance engagements on water reports. In our submission in response to the *Preliminary Australian Water Accounting Standard and Water Accounting Conceptual Framework* we recommended close liaison between the AUASB and WASB and are pleased to see this has occurred.

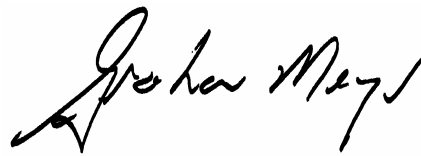
We note that work is still progressing in the finalisation of the water reporting standard. We anticipate the need for additional awareness and agility in reacting to any changes to the Exposure Draft (ED AWAS 1) during development of the assurance standard.

Our responses to the questions in the Consultation Paper are appended. If you require further information on any of our views, please contact Amir Ghandar, CPA Australia by email [amir.ghandar@cpaaustralia.com](mailto:amir.ghandar@cpaaustralia.com), Andrew Stringer, the Institute of Chartered Accountants by email [andrew.stringer@charteredaccountants.com.au](mailto:andrew.stringer@charteredaccountants.com.au) or Tom Ravlic, the Institute of Public Accountants by email [tom.ravlic@publicaccountants.org.au](mailto:tom.ravlic@publicaccountants.org.au)

Yours sincerely



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## Appendix

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

The Joint Accounting Bodies' preference is for the development of a new, standalone assurance standard under alternative 2. The specialist nature and relative immaturity of both water reporting and associated assurance suggests the initial need for multi-disciplinary teams including subject matter specialists such as accountants, hydrologists, engineers, mathematicians and modelling experts. To best serve the public interest, the Consultation Paper rightly considers the need for assurance practitioners drawn from other disciplines in addition to the accountancy profession. Whilst assurance practitioners drawn from the accountancy profession will be familiar with the AUASB standards, it is less likely to be the case for assurance practitioners from other disciplines. This is a strong reason for the development of a separate assurance standard that can be applied with ease by assurance practitioners from a range of disciplines.

We recognise the additional costs in developing and maintaining a standalone standard, but given the fundamental purpose of serving the public interest, we believe this is the appropriate way forward.

This approach accords with that of the International Auditing and Assurance Standards Board, which has recognised the need for a subject-specific standard addressing assurance on greenhouse gas statements.

### **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.**

Our preference is for a prescriptive approach to the qualifications' requirements in the assurance standard. We believe greater clarity is essential in ensuring that only appropriately qualified, experienced and competent practitioners are able to undertake water assurance engagements. Whilst we acknowledge that there will be additional costs in establishing and maintaining a register of practitioners who are able to undertake such engagements, as well as establishing and maintaining an associated competency framework, in our view a prescriptive approach will provide a simple mechanism for entities reporting under AWAS 1 to identify a suitably qualified assurance practitioner.

As mentioned in our response to Q16, we prefer reasonable assurance engagements for GPWAR, but recognise that users of these reports may permit limited assurance to be provided in certain circumstances.

Regardless, it is necessary to ensure that the assurance practitioner undertaking these engagements is appropriately qualified and skilled. A prescriptive approach would also align water assurance with other types of assurance engagements such as those associated with reporting by companies, self managed super funds and greenhouse and energy emitters.

We acknowledge that there may be concerns over potentially excluding assurance practitioners from suitable professions who could provide assurance on GPWAR. However, early identification and incorporation of suitable professions and practitioners into a prescriptive framework will avoid inadvertent exclusion of assurance practitioners from across disciplines. The framework should also be calibrated to incorporate suitable assurance practitioners from other professions as they are identified.

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

We recommend a prescriptive approach in response to Q2.

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

We do not consider it necessary to include other qualifications' requirements and guidance in the assurance standard. We do consider it necessary to establish a separate competency framework to assess whether an assurance practitioner has the necessary skills and knowledge to perform the engagement. In addition to possessing a minimum level of qualification (e.g. membership with one of the Joint Accounting Bodies) assurance practitioners will need to display their ability to complete the tasks of planning, evidence gathering, evidence evaluation and decision making in each of the five key areas:

- i. Client acceptance and retention
- ii. Audit planning
- iii. Controls evaluation and testing
- iv. Substantive testing
- v. Forming an opinion

Further, compliance with a code of ethics and professional independence requirements is vital, as well as possessing appropriate subject matter knowledge.

**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 the assurance standard should be available for application by anyone with appropriate skills and who can meet appropriate ethical and quality control requirements. It is necessary in our view to establish predetermined criteria within a competency based registration process for the selection of suitably qualified individuals. Practitioners must meet minimum entry standards of education and experience, abide by a code of ethics, other standards of professional conduct, be committed to ongoing professional development, be subject to a robust external quality review program and maintain appropriate insurance cover.

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

The Bureau of Meteorology (BOM) is likely to be the most appropriate body to undertake a regulatory role. Accreditation requirements could be developed with input from stakeholders such as the WASB, AUASB and relevant professional bodies.

We also provide the following recommendations intended to minimise the compliance burden of registration on individuals and firms:

- The registration requirements could be designed to leverage information already subject to appropriate scrutiny through other recognised registration processes (e.g., Registered Company Auditor (RCA) registration with ASIC under the Corporations Act 2001),
- The registration requirements should appropriately recognise membership of a recognised professional body, and,
- The registration requirements should provide the flexibility to allow organisations to establish an internal accreditation process that can be recognised by the BOM.

It should be noted that the professional accounting bodies have a track record of setting competency requirements for auditors and reviewers as benchmarks for their respective memberships. The bodies would be well positioned to provide material to guide members wishing to enter into the arena of providing assurance services in this area.

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

We agree that the proposed assurance standard should include a requirement to comply with relevant ethical principles, including independence. Independence is the cornerstone of external assurance and the absence of such a requirement would be a significant shortcoming.

**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?**

Professional bodies, such as the Joint Accounting Bodies have in place established and extensive professional standards and codes of ethics to ensure members act in the public interest. A monitoring regime is also in place to ensure ongoing compliance. The prescriptive approach to qualifications and competence we recommend will ensure that the assurance practitioners selected meet the ethical prerequisite. It would be worthwhile reinforcing the ethical requirements within the assurance standard as suggested in paragraphs 38 and 39. We would also recommend consideration be given to ethical codes (equivalent to APES 110 *Code of Ethics for Professional Accountants*) and professional standards from other professions as well to ensure inclusivity.

**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 believe this is possible. An assurance practitioner should be required to make an assessment of threats and the possible application of safeguards to minimise threats to an acceptable level when undertaking an engagement. There may be circumstances when an assurance practitioner concludes that adequate safeguards cannot be put in place to reduce threats to an acceptable level, and therefore will be required to refuse the engagement. Section 291 of APES 110 provides detailed guidance on threats to independence and appropriate safeguards that may be put in place to ensure independence in assurance engagements. The prescriptive approach to assurance practitioner accreditation should ensure that individuals have the necessary competence and knowledge to undertake an assessment of their independence before accepting a water assurance engagement.

**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?**

ED AWAS 1 paragraph 167 requires an explicit statement of whether the GPWAR is presented fairly in accordance with that standard. This suggests that the expectation is for the provision of assurance on the GPWAR as a whole, and we support this approach.

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

See our response to Q11 above.

**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 should be provided on the Accountability Statement as it is a key component of the GPWAR. As suggested in the Consultation Paper, relevant sections of the existing auditing standards that deal with laws and regulations could be adapted for inclusion in the proposed water assurance standard. Additionally, it is important to identify and incorporate within the standard, externally imposed requirements, including relevant legislation, and best practices specific to water reporting. This would assist the assurance practitioner in designing procedures to ensure compliance disclosures and any non-compliance disclosures are adequate.

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

Unaccounted for differences may arise for a number of reasons that may include inherent deficiencies in water measurement sciences, or errors in calculation by the water reporting entity. Whilst it may not be possible to adequately address the former, it would be essential that assurance procedures are suitably designed to address the latter. We agree that given the nature of the unaccounted for difference, the assurance practitioner will need to assess the risk of material misstatement of this line item by performing assurance procedures on other aspects of the GPWAR. However, as water reporting capabilities develop, assurance procedures surrounding unaccounted for differences should also develop.

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

The ability to derive future benefits is fundamental to the definition of a water asset. ED AWAS 1 clarifies the definition further by stating that a water asset must be of sufficient quality to enable the reporting entity to derive future benefits from the water. For example, saline water held by a reporting entity that operates a desalination plant would be considered a water asset by that entity. An assurance practitioner would have to consider the design of procedures to establish the quality of water for its intended purpose(s). The use of experts will be necessary to obtain sufficient evidence in this regard.

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

The preferred approach is for reasonable assurance based approach for the proposed assurance standard. However, we consider that the standard should allow for stakeholders and users of these reports to call for limited assurance engagements if these are considered to be suitable for their purposes. It may be that a regulator would choose to impose some reporting thresholds, which could include the option for limited assurance engagements in certain circumstances. Further, a regulator may also acknowledge that reporting systems for water are not well developed and thus for a period there could be merit in permitting review engagements.

Regardless, the decision about reasonable or limited assurance reporting is one that should be made by users of the reports – not within the body of a standard such as this.

**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.**

Refer our comments above.

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

Refer our comments above. We agree that a single-layered assurance approach is preferable and that reasonable and limited assurance components within the same report could be problematic. Our preference is for a reasonable assurance approach, but acknowledge that a limited assurance approach could be appropriate in some circumstances, but not as part of a multi-layered approach.

**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 should include requirements and guidance relating to the content of the assurance report.

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

Yes we consider that the inclusion of illustrative assurance reports would be helpful.

**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 requirements and guidance on the different types of assurance conclusions that may be included in an assurance report.

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

Yes we believe the types of assurance conclusions discussed in this Consultation Paper are relevant to assurance engagements on GPWAR.

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

Yes we agree that the proposed assurance standard should include requirements and guidance on Emphasis of Matter and Other Matter paragraphs in the assurance report. As highlighted in the Consultation Paper, there are intrinsic issues around water measurement sciences and combined with the fact water reporting and assurance are in early developmental stages, providing the assurance practitioner with an option to provide an emphasis of matter paragraph or provide other clarification in the assurance report is sensible.

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

Emphasis of Matter paragraphs are commonly used to address future uncertainties that may have an impact on the reported position at the period end. As defined in ED AWAS 1, water assets include rights or claims to water and similarly water liabilities include obligations to deliver water. Uncertainty over such rights/claims or obligations could be one example where an Emphasis of Matter paragraph is utilised by the assurance practitioner. Another example where an assurance practitioner may have to address matters through an Emphasis of Matter paragraph would be in respect of uncertainties arising out of the Future Prospects note.

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

We have not identified specific examples of matters that may be included in an Other Matter Paragraph. However, given water assurance is still being developed, it would be useful to provide the assurance practitioner with the option to explain certain matters that in their judgement are relevant to users' understanding in an Other Matter paragraph.

**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?**

We agree that a principles based approach is appropriate for materiality.

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

Limitations surrounding the use of some assurance procedures such as analytical review, physical examination and re-performance in conducting water assurance engagements arise due to the relatively emergent nature of water reporting. As assurance capabilities develop and water reporting becomes more established, it is likely these assurance procedures will be able to be applied more readily. The selection of assurance practitioners who meet prescribed criteria will ensure high calibre individuals with ability to exercise judgement over selection and design of suitable assurance procedures. The use of subject matter experts will also assist the assurance practitioner in performing some of the traditional assurance procedures.

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

In general, we have not identified any other procedures that would be applicable. However, we draw your attention to our response to Q15 where we have highlighted the specific need for assurance procedures to establish the quality of water.

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

Yes, given that water reporting is relatively new and highly specialised, we consider it essential for the proposed standard to include requirements and guidance relating to using the work of assurance practitioners' 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?**

We recommend guidance included within the proposed standard on using the work of an assurance practitioner's expert or management's expert draws upon 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?**

We consider it essential for the proposed standard to include requirements and guidance relating to using the work of management's experts given that water reporting is relatively new and highly specialised.

**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?**

See our response to Q30 above.

**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?**

It is conceivable that some of the larger water reporting entities rely on an internal audit function as part of their controls and it would be beneficial to the assurance practitioner if the proposed standard provides guidance for the use of work carried out by the reporting entity's internal audit function. It would also be appropriate to provide guidance to assurance practitioners on the extent of reliance that can be placed on work carried out by the internal audit function.

**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?**

We are not aware of any QA/QC, or peer review, functions undertaken that are related to water reporting.

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

The degree of impact and the amount of reliance an assurance practitioner can place on evidence arising from QA/QC or peer reviews is likely to depend on the competence, capabilities and independence of those carrying out QA/QC or peer review work.

**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.**

We are not 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.

**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?**

It is conceivable that as water reporting evolves, different classes of users emerge, some requiring water reporting at a component level, whilst others require water reports at a group level. As ED AWAS 1 includes provisions for the preparation of group water reports, the proposed assurance standard should include guidance for practitioners who undertake assurance engagements in respect of group water reports.

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

The Future Prospects note is an integral part of GPWAR and an assurance practitioner's responsibilities in respect of the Future Prospects note will need to align with their overall responsibilities in providing assurance over the whole of GPWAR.

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

The Future Prospects note presents challenges similar to those that a company auditor faces in assessing going concern. There are however some unique challenges presented in assessing future water flows, as stated. It is likely the assurance practitioner will need the use of subject matter experts to design and conduct assurance procedures to identify the impact on future water flows due to climatic conditions and variable weather patterns.

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

Yes, the proposed assurance standard should include requirements to address 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.**

Information arising subsequently which indicates changes to water quantities (as a result of new measurement information about quantitative or qualitative aspects) at the reporting period end. The assurance practitioner will need to design assurance procedures to capture such information and identify whether there is an impact on reported water quantities at the period end.

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

Assurance should be provided every time a GPWAR is prepared so that users can receive some comfort about the report they receive. Lack of assured comparative information is likely to increase the complexity and cost of work done by the assurance practitioner. Intermittent assurance is also likely to hinder the development of assurance capabilities over time.

**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 anticipate similar shortcomings with this approach as that suggested in Q42 and the concerns we highlight in response to Q42 would also be relevant here. As previously stated we also consider reasonable assurance as the best approach in assuring GPWAR and recommend the proposed standard reflects this.