

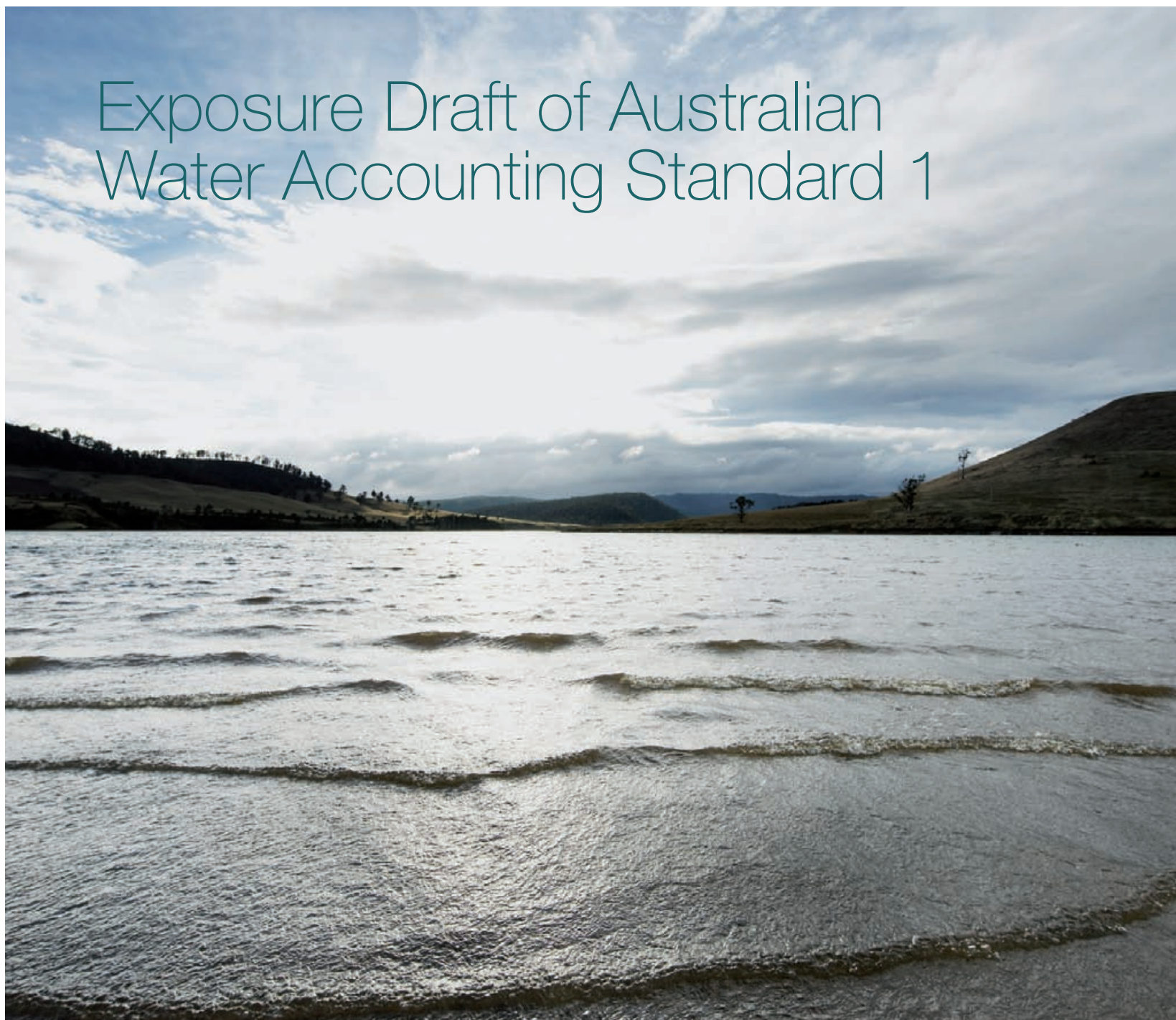
# Water Accounting Standards Board

An independent advisory Board to the Bureau of Meteorology



**Water Information**  
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## Exposure Draft of Australian Water Accounting Standard 1



**Australian Government**  
**Bureau of Meteorology**

The Exposure Draft of Australian Water Accounting Standard 1: *Preparation and Presentation of General Purpose Water Accounting Reports* (ED AWAS 1) and associated model reports are available online at: [www.bom.gov.au/water/wasb](http://www.bom.gov.au/water/wasb)

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# Exposure Draft of Australian Water Accounting Standard 1: Preparation and Presentation of General Purpose Water Accounting Reports.

The Exposure Draft of Australian Water Accounting Standard 1 (ED AWAS 1) is published by the Water Accounting Standards Board (WASB) for comment. The feedback received will significantly inform the transition from an exposure draft to the final version of the Australian Water Accounting Standard 1 (AWAS 1).

Included as an appendix to the ED AWAS 1 is a list of defined terms, implementation guidance and a basis for conclusions, which outlines the discussion and assumptions that informed the decisions WASB made while writing the ED AWAS 1.

A group of four model reports have also been prepared in accordance with the ED AWAS 1 as illustrative examples of four different water entities. They are intended to illustrate the application of the ED AWAS 1 in varying situations. The model reports are not static documents and will require regular updating as changes arise from new or amended AWAS.

Please provide any comments on ED AWAS 1 or the associated model reports to **[wasbofeedback@bom.gov.au](mailto:wasbofeedback@bom.gov.au)** by 30 June 2011.

For more information visit our website at: **[www.bom.gov.au/water/wasb](http://www.bom.gov.au/water/wasb)**.

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## Introduction

### Reasons for publishing this exposure draft

One of the objectives of the National Water Initiative (NWI) is to standardise the practice of water accounting in Australia so that consistent and comparable information about water resources is available for decision-makers at:

- a) the national level for policy development;
- b) the jurisdictional level for water resource planning and monitoring;
- c) the water organisation level for water resource management;
- d) the site level for on-site water management; and
- e) the individual level for making decisions about the allocation of resources.

The *SKM Report: Stocktake and Analysis of Australia's Water Accounting Practice (2006)*, commissioned by the parties to the NWI, recommended an approach to developing water accounting standards based on that used for financial reporting. In late 2006, the parties to the NWI established the National Water Accounting Development project (NWADp) to progress such an approach.

Under the Commonwealth *Water Act (2007)*, the Director of Meteorology has the power to issue water information standards, including water accounting standards.

The NWADp has primarily involved considering users' information needs, developing a Water Accounting Conceptual Framework (WACF) and capacity building in water accounting within the states and territories through practical pilot testing projects. The WACF forms the foundation for developing Australian Water Accounting Standards (AWAS). The ED AWAS 1 prescribes the basis for preparing and presenting a general purpose water accounting report.

### Main features of the exposure draft

The ED AWAS 1 prescribes the basis for preparing and presenting a general purpose water accounting report, which comprises the following components:

- a) a Contextual Statement;
- b) an Accountability Statement;
- c) a Statement of Water Assets and Water Liabilities;
- d) a Statement of Changes in Water Assets and Water Liabilities;
- e) a Statement of Physical Water Flows;
- f) note disclosures; and
- g) an Assurance Statement.

The ED AWAS 1 was developed based on the concepts in the WACF and sets out the following:

- a) the definitions of the water accounting elements (water assets, water liabilities, changes in water assets, changes in water liabilities and net water assets);
- b) the recognition criteria for those elements;
- c) the quantification attribute and unit of account for those elements; and
- d) disclosure requirements.

## Assurance Standard

The ED AWAS 1 requires that general purpose water accounting reports must be audited. The WASB and the Auditing and Assurance Standards Board (AUASB) have agreed to work jointly on the development of an assurance standard for water accounting. Further information on the project will be provided on both the WASB and AUASB websites when it becomes available: [www.bom.gov.au/water/wasb](http://www.bom.gov.au/water/wasb) and [www.auasb.gov.au](http://www.auasb.gov.au).

## Invitation to Comment

The WASB invites comments on any aspect of the ED AWAS 1, Implementation Guidance and Basis for Conclusions. It would particularly welcome answers to the questions set out in this Invitation to Comment. Comments are most helpful if they:

- a) respond to the questions as stated;
- b) indicate the specific paragraph or paragraphs to which the comments relate;
- c) contain a clear rationale; and
- d) describe any other approaches the WASB should consider, if applicable.

Respondents need not comment on all of the questions and are encouraged to comment on any additional issues.

The WASB will consider all comments received in writing by 31 January 2011. In considering the comments, the WASB will base its conclusions on the merits of the arguments, not on the number of responses supporting an approach.

The WASB plans to hold public round-table meetings after the comment deadline with selected respondents. Please indicate in your comments whether you are interested in taking part in a round-table meeting.

## Scope

### (ED AWAS 1: paragraphs 2-4)

The ED AWAS 1 proposes that it be applied in preparing and presenting a general purpose water accounting report for a water report entity.

The proposed definition of a water report entity is:

A water entity in respect of which it is reasonable to expect the existence of users who depend on general purpose water accounting reports for information about water, or rights or other claims to water, which will be useful to them for making and evaluating decisions about the allocation of resources.

The proposed definition of a water entity is:

A physical entity, an organisation or individual, that:

- a) holds or transfers water;
- b) holds or transfers rights or other direct or indirect claims to water;
- c) has inflows and/or outflows of water; or
- d) has responsibilities relating to the management of water.

The proposed definition of a general purpose water accounting report is:

A water accounting report intended to meet the information needs common to users who are unable to command the preparation of water accounting reports tailored to satisfy their information needs.

The ED AWAS 1 thus adopts a water report entity concept that is tied to the information needs of users. Accordingly, general purpose water accounting reports are required to be prepared for a water entity when it is reasonable to expect the existence of users who are:

- a) dependent on water accounting reports for information about water, or rights or other claims to water, which will be useful to them for making and evaluating decisions about the allocation of resources; and
- b) unable to command the preparation of special purpose water accounting reports to satisfy their information needs.

#### Question 1

Do you agree with the proposed definition of a water report entity?  
If not, how should a water report entity be defined and why?

#### Question 2

Do you agree with the proposed definition of a general purpose water accounting report?  
If not, how should a general purpose water accounting report be defined and why?

#### Question 3

Do you agree that the requirement to prepare a general purpose water accounting report should be tied to the information needs of users? If not, what basis for the preparation of general purpose water accounting reports should be applied and why?

### Objective of general purpose water accounting reports

#### (ED AWAS 1: 5; Basis for Conclusions (BC): paragraphs B17-B18)

The ED AWAS 1 proposes that the objective of a general purpose water accounting report is to provide information to users of that report that will be useful in:

- a) making and evaluating decisions about the allocation of resources; and
- b) understanding and evaluating the accountability of managers, management groups or governing bodies of the water report entity for the water assets and water liabilities of the water report entity.

#### Question 4

Do you agree with the proposed objective of general purpose water accounting reports?  
If not, what should be the objective and why?

## Accrual basis of water accounting

(ED AWAS 1: 13-14; BC: B19-B23)

The ED AWAS 1 proposes that with the exception of physical water flow information, general purpose water accounting reports are to be prepared using the accrual basis of water accounting.

### Question 5

Do you agree with the proposal to apply the accrual basis of water accounting in the preparation of general purpose water accounting reports? If not, what should be the basis and why?

## Error corrections

(ED AWAS 1: 35-38; BC: B26-B27)

The ED AWAS 1 proposes to define prior period errors as:

Omissions from, or misstatements in, the water report entity's general purpose water accounting report for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when the general purpose water accounting report for those periods were issued; and
- b) could reasonably have been expected to be obtained and taken into account in the preparation and presentation of those general purpose water accounting reports'.

The ED AWAS 1 also proposes that prior period errors be corrected in the first general purpose water accounting report issued after their discovery by restating the comparative information presented for the prior period(s) to correct the errors in the period in which they occurred. To the extent that the error occurred before the earliest prior period presented, the error is corrected by restating the opening balances of water assets and water liabilities for the earliest prior period presented.

The ED AWAS 1 also proposes specific disclosure requirements related to prior period errors (ED AWAS 1: 130-131).

### Question 6

Do you agree with the proposed definition of a prior period error?  
If not, how should a prior period error be defined and why?

### Question 7

Do you agree with the proposal to require prior period errors to be corrected by restating the comparative information presented for the prior period(s) to ensure they are corrected in the period in which they occurred? If not, how should prior period errors be accounted for and why?

### Question 8

Do you agree with the proposed disclosure requirement related to error corrections?  
If not, what alternative or additional information should be disclosed and why?

## Contextual Statement

(ED AWAS 1: 48-49; BC: B31-B32)

The ED AWAS 1 proposes that a general purpose water accounting report includes a Contextual Statement that provides information that enables users to understand the physical and administrative aspects of the water report entity, and also provides information about the water assets and water liabilities of the water report entity, including any conditions that have had an impact on the management of those water assets and water liabilities.

### Question 9

Do you agree that the Contextual Statement should provide information that enables users to understand the physical and administrative aspects of the water report entity, as well as providing information about the water assets and water liabilities of the water report entity, including any conditions that have had an impact on the management of those water assets and water liabilities? If not, why not?

### Question 10

What, if any, additional information should be required to be provided in the Contextual Statement and why?

## Accountability Statement

(ED AWAS 1: 50-57; BC: B33-B39)

The ED AWAS 1 proposes that a general purpose water accounting report includes an Accountability Statement, and sets out the information to be included in that Accountability Statement. The objective of the information is to assist users to assess whether:

- a) the general purpose water accounting report has been prepared and presented in accordance with Australian Water Accounting Standards;
- b) externally imposed requirements relevant to managing the water assets and water liabilities have been complied with; and
- c) best practices for managing water assets and water liabilities have been applied.

The ED AWAS 1 also proposes specific sign-off requirements for the Accountability Statement and additional disclosure requirements when there has been non-compliance with AWAS or externally-imposed requirements for managing the water assets and water liabilities of the water report entity (paragraph 57).

#### Question 11

Do you agree with the proposed information to be included in the Accountability Statement? If not, what information should not be included and why?

#### Question 12

Should additional information be required to be included in the Accountability Statement? If so, why?

#### Question 13

Do you agree with the proposed sign-off requirements for the Accountability Statements? If not, what alternative sign-off requirements should be prescribed and why?

### Statement of Water Assets and Water Liabilities:

#### Information to be presented

(ED AWAS 1: 59-64; BC: B40-B42)

The ED AWAS 1 proposes that the Statement of Water Assets and Water Liabilities should provide information that enables users to understand the nature and volumes of water assets and water liabilities of a water report entity. The ED AWAS 1 proposes three line items to be presented in the Statement of Water Assets and Water Liabilities, and also proposes to require additional sub-classifications of these line items when the volume, nature or function of a sub-classified item is such that its separate presentation is relevant to an understanding of the water report entity's water assets and water liabilities.

#### Question 14

Are the three line items required by the ED AWAS 1 sufficient and appropriate? If not, what additional or alternative line items should be required and why?

#### Question 15

Do you agree with the proposed requirements for when to include additional sub-classifications of the three line items? If not, in what circumstances should additional sub-classifications be required and why?

#### Water assets

(ED AWAS 1: 65-76; BC: B43-B70)

The ED AWAS 1 proposes to define a water asset as:

Water, or the rights or other claims to water, which the water report entity either holds, or for which the water report entity has management responsibilities, and from which an individual or organisation that is a water report entity, or a group of stakeholders of a physical water report entity, derives future benefits.

The ED AWAS 1:65 proposes criteria for determining when an item that meets the definition of a water asset should be recognised in the Statement of Water Assets and Water Liabilities. In particular, it proposes that a water asset should be recognised only when:

- a) it is probable that future benefits associated with the item will be derived by the individual or organisation that is a water report entity or by a group of stakeholders of a physical water report entity; and
- b) the item's volume can be quantified with representational faithfulness.

The ED AWAS 1:66-69 propose guidance on the notion of future benefits, and the ED AWAS 1:70-76 propose guidance on the types of items expected to meet the definition of, and recognition criteria for, a water asset.

#### Question 16

Do you agree with the proposed definition of a water asset?  
If not, how should a water asset be defined and why?

#### Question 17

Do you agree with the proposed criteria for recognising a water asset in the Statement of Water Assets and Water Liabilities? If not, what alternative recognition criteria should be applied and why?

#### Question 18

Is the proposed guidance in the ED AWAS 1:66-69 useful in clarifying the notion of future benefits? If not, what alternative or additional guidance should be included and why?

#### Question 19

Is the proposed guidance in the ED AWAS 1:70-76 useful in clarifying the application of the definition and recognition criteria for water assets?  
If not, what alternative or additional guidance should be included and why?

### **Present versus future water rights**

#### **(ED AWAS 1: 74-80; BC: B68-B76)**

The ED AWAS 1 proposes that the definition of a water asset includes rights or other claims to water, and goes on to draw a distinction between present water rights and future water rights. The ED AWAS 1 proposes that to be capable of meeting the definition of a water asset, a right or other claim to water must represent a present right or other present claim to water. It proposes that a future water right is not, at the reporting date, a present right or other present claim to water of the water report entity and is therefore not recognised as a water asset in the Statement of Water Assets and Water Liabilities. However, the ED AWAS 1 proposes disclosure requirements for future water rights expected to be realised within 12 months of the reporting date (ED AWAS 1:140-146).

### Question 20

Do you agree with the proposed distinction between a present water right and a future water right? If not, why not?

### Question 21

Is the guidance in the ED AWAS 1:74-80 useful for distinguishing between a present water right and a future water right? If not, what alternative or additional guidance should be included and why?

### Question 22

Do you agree with the proposed treatment of a future water right (i.e. not recognised as a water asset, but with information required to be disclosed)? If not, what alternative treatment should be applied and why?

## Contingent water assets

**(ED AWAS 1: 81-85; BC: B77-B80)**

The ED AWAS 1 proposes to define a contingent water asset as:

A possible water asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the management of the water report entity.

The ED AWAS 1 further proposes that because a contingent water asset does not meet the definition of a water asset, it is not recognised in the Statement of Water Assets and Water Liabilities. Instead, the ED AWAS 1:147-149 propose that certain information be disclosed in the notes.

### Question 23

Do you agree with the proposed definition of a contingent water asset? If not, how should a contingent water asset be defined and why?

### Question 24

Is the proposed guidance in the ED AWAS 1:82-85 useful for determining whether an item represents a contingent water asset? If not, what alternative or additional guidance should be included and why?

### Question 25

Do you agree with the proposed disclosure requirements for contingent water assets? If not, what alternative or additional information should be disclosed and why?

## **Water liabilities**

### **(ED AWAS 1: 86-91; BC: B81-B100)**

The ED AWAS 1 proposes to define a water liability as:

A present obligation of the water report entity, the discharge of which is expected to result in a decrease in the water report entity's water assets or an increase in another water liability.

The ED AWAS 1:86 proposes criteria for determining when an item that meets the definition of a water liability should be recognised in the Statement of Water Assets and Water Liabilities. In particular, it proposes that a water liability should be recognised only when:

- a) it is probable that the present obligation will result in a decrease in the water report entity's water assets or an increase in another water liability when the obligation is discharged; and
- b) the item's volume can be quantified with representational faithfulness.

The ED AWAS 1:87-91 propose guidance on the notion of a present obligation and examples of items expected to meet the definition of, and recognition criteria for, a water liability.

#### **Question 26**

Do you agree with the proposed definition of a water liability? If not, how should a water liability be defined and why?

#### **Question 27**

Do you agree with the proposed criteria for recognising a water liability in the Statement of Water Assets and Water Liabilities? If not, what alternative recognition criteria should be applied and why?

#### **Question 28**

Is the proposed guidance in the ED AWAS 1:87-91 useful in clarifying the notion of present obligations and the application of the definition of, and recognition criteria for, a water liability? If not, what alternative or additional guidance should be included and why?

## **Future water commitment**

### **(ED AWAS 1: 88-91; BC: B101-B104)**

The ED AWAS 1 proposes to draw a distinction between present obligations and future water commitments, and proposes that for an obligation to meet the definition of a water liability, it must be a present obligation of the water report entity.

The ED AWAS 1 proposes to define a future water commitment as an expected future demand on water influenced by the availability and management of the water assets and water liabilities of the water report entity. Because a future water commitment is not, at the reporting date, a present obligation of the water report entity, the ED AWAS 1 proposes that it cannot be recognised as a water liability in the Statement of Water Assets and Water Liabilities. However, the ED AWAS 1:140-146 propose disclosure requirements for future water commitments expected to be settled within 12 months of the reporting date.

### Question 29

Do you agree with the proposed distinction between a present obligation and a future water commitment, including the proposed definition of a future water commitment? If not, what alternative distinction should be provided and why?

### Question 30

Is the guidance in the ED AWAS 1:87-95 useful for distinguishing between a present obligation and a future water commitment? If not, what alternative or additional guidance should be included and why?

### Question 31

Do you agree with the proposed treatment of future water commitments (i.e. not recognised as water liabilities, but with certain information required to be disclosed)? If not, what alternative treatment should be applied and why?

## Contingent water liabilities

### (ED AWAS 1: 96-100; BC: B105-B109)

The ED AWAS 1 proposes to define a contingent water liability as:

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the management of the water report entity.

The ED AWAS 1 further proposes that because a contingent water liability does not meet the definition of a water liability, it is not recognised in the Statement of Water Assets and Water Liabilities. Instead, the ED AWAS 1:147-149 propose that certain information about contingent water liabilities be disclosed in the notes.

### Question 32

Do you agree with the proposed definition of a contingent water liability? If not, how should a contingent water liability be defined and why?

### Question 33

Is the proposed guidance in the ED AWAS 1:97-100 useful for determining whether an item represents a contingent water liability? If not, what alternative or additional guidance should be included and why?

### Question 34

Do you agree with the proposed disclosure requirements for contingent water liabilities? If not, what alternative or additional information should be disclosed and why?

## Statement of Changes in Water Assets and Water Liabilities:

### Information to be presented

(ED AWAS 1: 103-106; BC: B110-B111)

The ED AWAS 1 proposes that the Statement of Changes in Water Assets and Water Liabilities provide information that enables users to understand changes in the volumes and nature of a water report entity's net water assets during the reporting period. It proposes five line items to be presented in the Statement of Changes in Water Assets and Water Liabilities, and also proposes to require additional sub-classifications of these line items when the volume, nature or function of a sub-classified item is such that its separate presentation is relevant to understanding changes in the water report entity's net water assets.

#### Question 35

Are the five line items required by the ED AWAS 1 sufficient?  
If not, what additional or alternative line items should be required and why?

#### Question 36

Do you agree with the proposed requirements for when to include additional sub-classifications of the five line items? If not, under what circumstances should additional sub-classifications be required and why?

## Statement of Physical Water Flows:

### Information to be presented

(ED AWAS 1: 111-116; BC: B110-B111)

The ED AWAS 1 proposes that the Statement of Physical Water Flows provide information that enables users to understand the nature and volumes of physical water flows experienced by the water report entity during the reporting period. It proposes five line items to be presented in the Statement of Physical Water Flows, and also proposes to require additional sub-classifications of these line items when the volume, nature or function of a sub-classified item is such that its separate presentation is relevant to understanding the physical water flows experienced by the water report entity.

#### Question 37

Are the five line items required by the ED AWAS 1 sufficient?  
If not, what additional or alternative line items should be required and why?

#### Question 38

Do you agree with the proposed requirements for when to include additional sub-classifications of the five line items? If not, under what circumstances should additional sub-classifications be required and why?

## Group water accounting reports

(ED AWAS 1: 117-121; BC: B112-B124)

The ED AWAS 1 proposes to define a group water report entity as:

A water report entity comprising individual water entities and for which a group water accounting report is required to be prepared under regulation, statute or directive.

It also proposes to define a group water accounting report as:

The water accounting report of a group water report entity presented as a single water entity.

The ED AWAS 1: 117-121 also proposes procedures for preparing group water accounting reports.

### Question 39

Do you agree with the proposed definition of a group water report entity?

If not, how should a group water report entity be defined and why?

### Question 40

Do you agree with the proposed definition of a group water accounting report?

If not, how should a group water accounting report be defined and why?

### Question 41

Are circumstances under which a group water accounting report would be required to be prepared clear from these proposed definitions? If not, what alternative or additional guidance should be included and why?

### Question 42

Do you agree with the proposed procedures for preparing a group water accounting report? If not, what alternative or additional guidance should be included and why?

## Note disclosures:

(ED AWAS 1: 122-166; BC: B125-B138)

### Information about quantification approaches

(ED AWAS 1: 136-138)

The ED AWAS 1 proposes specific disclosure requirements about the approaches used to quantify items presented in the water accounting statements.

### Question 43

Do you agree with the proposed disclosure requirements about quantification approaches? If not, what additional or alternative information should be disclosed and why?

### **Future prospects**

**(ED AWAS 1: 140-146; BC: B126-B129)**

The ED AWAS 1 proposes to require information to be disclosed about the future prospects of the water report entity; in particular the extent to which water assets at the reporting date are expected to be available to settle water liabilities and other commitments within 12 months of the reporting date.

#### **Question 44**

Do you agree with the proposed disclosure requirements about future prospects? If not, what additional or alternative information should be disclosed and why?

### **Water market activity**

**(ED AWAS 1: 154-156; BC: B131-B132)**

The ED AWAS 1 proposes specific disclosure requirements about the trading of rights that relate to water of the water report entity.

#### **Question 45**

Do you agree with the proposed disclosure requirements about trading of rights that relate to water of the water report entity? If not, what additional or alternative information should be disclosed and why?

### **Water for environmental, social and cultural, and economic benefit**

**(ED AWAS 1: 157-160; BC: B133-B135)**

The ED AWAS 1 proposes specific disclosure requirements about how the water report entity's water assets have been used during the reporting period in the pursuit of:

- a) environmental benefit;
- b) social and cultural benefit; and
- c) economic benefit.

#### **Question 46**

Do you agree with the proposed disclosure requirements about how the water report entity's water assets have been used during the reporting period in the pursuit of environmental, social and cultural, and economic benefit? If not, what additional or alternative information should be disclosed and why?

### **Segment information**

**(ED AWAS 1: 161-165; BC: B136-B138)**

The ED AWAS 1 proposes specific disclosure requirements about discrete components of the water report entity when such information would be relevant to users of the general purpose water accounting report. Each such discrete component would be referred to as a segment.

The ED AWAS 1 also proposes that segments should be identified by considering the physical and administrative aspects of the water report entity.

#### Question 47

Are circumstances under which segment information would be required to be provided clear from the proposed requirements? If not, what alternative or additional guidance should be proposed and why?

#### Question 48

Do you agree with the proposed disclosure requirements for segments?  
What alternative or additional information should be disclosed and why?

### **Events after the reporting period**

#### **(ED AWAS 1: 39-42 and 132-135)**

The ED AWAS 1 proposes that events after the reporting date should be classified as either an 'adjusting event after the reporting period' or a 'non-adjusting event after the reporting period'.

The proposed definition of an adjusting event after the reporting period is:

An event that occurs between the end of the reporting period and the date when the Accountability Statement is signed that provides evidence of conditions that existed at the end of the reporting period.

The proposed definition of a non-adjusting event after the reporting period is:

An event that occurs between the end of the reporting period and the date when the Accountability Statement is signed that is indicative of conditions that arose after end of the reporting period.

The ED AWAS 1 proposes that volumes recognised in the water accounting statements:

- a) shall be adjusted to reflect adjusting events after the end of the reporting period; and
- b) shall not be adjusted to reflect non-adjusting events after the end of the reporting period.

The ED AWAS 1 also provides examples of items that represent adjusting and non-adjusting events after the end of the reporting period.

## Implementation guidance

The ED AWAS 1 is accompanied by implementation guidance to assist practitioners with some of the more difficult aspects of the ED AWAS 1 to assist in the consistency and comparability of general purpose water accounting reports.

### Question 52

Do you agree that the implementation guidance provided is appropriate? If not, why not?

### Question 53

What additional or alternative implementation guidance should be provided and why?

## Model reports

The WASB has developed model water accounting reports to illustrate the application of the ED AWAS 1 for four fictitious water report entities that represent four different types of water entities, including:

- a) a water supply system;
- b) a major user of water;
- c) an urban utility supply system; and
- d) an environmental water rights holder.

Accordingly, the model reports demonstrate different types of water assets, water liabilities and note disclosures.

### Question 54

Are the model reports useful in illustrating the application of the ED AWAS 1?  
If not, why not?



# Exposure Draft of Australian Water Accounting Standard 1

Preparation & Presentation of  
General Purpose Water  
Accounting Reports (ED AWAS 1)



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The ED AWAS 1 is set out in paragraphs 1-169 and the Appendix. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in the Appendix appear in *italics* in the ED AWAS 1. The ED AWAS 1 should be read in the context of its objective and the Basis for Conclusions.

## Objective

1. This Standard prescribes the basis for preparing and presenting *general purpose water accounting reports*. It sets out requirements for the recognition, quantification, presentation and disclosure of items in a *general purpose water accounting report* to ensure comparability with:
  - a) the *general purpose water accounting reports* of the *water report entity* over time; and
  - b) the *general purpose water accounting reports* of other *water report entities*.

## Scope

2. This Standard shall be applied in preparing and presenting *general purpose water accounting reports* for a *water report entity*.
3. In the absence of explicit guidance in this Standard, the Water Accounting Conceptual Framework for the Preparation and Presentation of General Purpose Water Accounting Reports shall be applied in developing and applying *water accounting policies*.
4. *Water* that is in the terrestrial phase of the *water cycle* is within the scope of this Standard. *Water* in the marine or atmospheric phases of the *water cycle* is not within the scope of this standard. The focus of *water accounting* is on *water* that is fit for purpose relative to the nature or objectives of the *water report entity*.

## General purpose water accounting reports

### Objective

5. A *general purpose water accounting report* shall provide information to users of that report that will be useful in:
  - a) making and evaluating decisions about the allocation of resources
  - b) understanding and evaluating the accountability of managers, management groups or governing bodies of the *water report entity* for the *water assets* and *water liabilities* of the *water report entity*.

### Elements

6. The elements of a *general purpose water accounting report* are:
  - a) *water assets*;
  - b) *water liabilities*;
  - c) *net water assets*;
  - d) *changes in water assets*; and
  - e) *changes in water liabilities*.

## Components

7. **A general purpose water accounting report comprises:**
  - a) a Contextual Statement (see paragraphs 48-49);
  - b) an Accountability Statement (see paragraphs 50-57);
  - c) a Statement of Water Assets and Water Liabilities (see paragraphs 58-100);
  - d) a Statement of Changes in Water Assets and Water Liabilities (see paragraphs 101-108);
  - e) a Statement of Physical Water Flows (see paragraphs 109-116);
  - f) note disclosures (see paragraphs 123-166); and
  - g) an Assurance Statement (see paragraphs 167-169).

## General features

### Fair presentation

8. **General purpose water accounting reports shall present fairly the water assets and water liabilities, the changes in water assets and changes in water liabilities, and the physical water flows of a water report entity.** Fair presentation requires the faithful representation of the effects of transactions, transformations and events in accordance with the definitions and recognition criteria for *water assets, water liabilities, changes in water assets and changes in water liabilities* set out in this Standard. The application of this Standard results in a *general purpose water accounting report* that achieves a fair presentation.
9. **Information provided in a general purpose water accounting report is a faithful representation of the effects of transactions, transformations and events when it is complete, neutral and free from material error.**
10. Information in *general purpose water accounting reports* is complete if it includes all information that is necessary for faithful representation of the transactions, transformations and events that it purports to represent. Information that is omitted or is false and misleading is not useful for decision making.
11. Information in *general purpose water accounting reports* is neutral if it is free from bias. *General purpose water accounting reports* are not neutral if, by the selection, disclosure or presentation of information, they influence the making of a decision or judgement by the users of those reports in order to achieve a predetermined result or outcome.
12. Information is material if its omission from, or misstatement in, a *general purpose water accounting report* could influence the decisions of users of that report (see paragraphs 15-19).

### Accrual basis of water accounting

13. **With the exception of physical water flow information, general purpose water accounting reports shall be prepared using the accrual basis of water accounting.**
14. Applying the accrual basis of water accounting means that the effects of transactions, transformations and events are recognised when the decisions or commitments that give rise to them occur. This may not be the time at which *water* is physically transacted, transformed or subject to some other event. The accrual basis of *water* accounting ensures that transactions, transformations and events are recorded in the Statement of

Water Assets and Water Liabilities and the Statement of Changes in Water Assets and Water Liabilities in the *reporting periods* to which they relate. For example, a present *legal obligation* to provide *water* from a particular catchment area would be recognised at the *reporting date* as a *water liability* of the *water report entity*, even though *water* has not been physically transferred by the end of the *reporting period*. *General purpose water accounting reports* prepared on an accrual basis inform users not only of past transactions, transformations or events involving the physical transfer or transformation of *water*, but also of present obligations to transfer or transform *water* in the future and of rights to *water* to be transferred to the *water report entity* in the future. Therefore, they provide information about past transactions, transformations and events that is useful to users for making and evaluating decisions about the allocation of resources.

### Materiality

15. **Materiality shall be applied in preparing and presenting *general purpose water accounting reports*. Information is material if its omission from, or misstatement in, a *general purpose water accounting report* could influence the decisions of users of that report.**
16. Materiality influences whether an item or an aggregate of items is required to be recognised, quantified, presented or disclosed in accordance with the requirements of this Standard. When an item or an aggregate of items is not material, application of materiality does not mean that those items would not be recognised, quantified, presented or disclosed, but rather that they would not be required to be recognised, quantified, presented or disclosed in accordance with the requirements of this Standard.
17. It is not possible to specify a uniform quantitative threshold at which information becomes material. Nevertheless, materiality must be taken into account because material omissions from or misstatements in *general purpose water accounting reports* will render the information incomplete, biased or not free from error.
18. In some cases, the nature of information alone is sufficient to determine its materiality. For example, environmental *water* flows from a particular source may be relatively small in volume, but may be critical for maintaining ecosystem health, and therefore information about such *water* flows is relevant to decision makers. In other cases, both the nature and volume of an item are important to assessing materiality. For example, if the volume of minor catchment storages within a particular area is relatively small, information about those storages may not be relevant. However, when minor catchment storages capture a significant portion of runoff, information about those storages may be relevant to the users of the *general purpose water accounting report*. Materiality is therefore a matter of judgement influenced by the characteristics of the *water report entity* and the information needs of users.
19. In addition to guiding the application of the recognition, quantification, presentation and disclosure requirements, materiality guides the margin of error that is acceptable in the volume attributed to an item or an aggregate of items and the degree of precision required in estimating the volume of an item or an aggregate of items.

### Offsetting

20. **A *general purpose water accounting report* shall present:**
  - a) ***water assets* separately from *water liabilities*;**
  - b) ***changes in water assets* separately from *changes in water liabilities*; and**
  - c) **physical *water* inflows separately from physical *water* outflows.**

21. Offsetting the items in paragraph 20 detracts from the ability of users to understand the transactions, transformations and events that have occurred in the *reporting period*. Therefore, this Standard does not permit offsetting of items within the *water accounting statements*.

#### Frequency of reporting

22. **General purpose water accounting reports shall be prepared for a water report entity no less frequently than annually.**

#### Comparative information

23. Comparative information shall be provided in *general purpose water accounting reports* to enable users to compare the nature and volumes of *water assets* and *water liabilities* of a *water report entity*, and changes in those *water assets* and *water liabilities*, over time.
24. Except when this Standard permits or requires otherwise, comparative information shall be provided for the immediately preceding *reporting period* for all volumes reported in the current *reporting period's general purpose water accounting report*. Comparative information for narrative and descriptive information shall be provided when it is relevant to an understanding of the current *reporting period's general purpose water accounting report*.
25. This Standard requires, as a minimum, comparative information for the immediately preceding *reporting period* to be provided for all volumes reported in the current *reporting period's general purpose water accounting report*. Comparative information for earlier *reporting periods* is also provided when it is relevant to an understanding of the current *reporting period's general purpose water accounting report*.
26. In some cases, narrative information provided in the *general purpose water accounting report* for a prior *reporting period* continues to be relevant in the current *reporting period*. For example, information about temporarily contaminated *water* at the end of the immediately preceding *reporting period* coupled with information about the treatments or events altering the condition of that *water* during the current *reporting period* may be relevant to an understanding of the current *reporting period's general purpose water accounting report*.
27. **When, in accordance with paragraph 32, changes are made to the presentation or classification of an item in a general purpose water accounting report, the comparative information presented for each prior reporting period shall be restated as if the revised presentation or classification had always applied, unless such restatement is impracticable.**
28. Ensuring the inter-period comparability of information assists users in making and evaluating decisions about the allocation of resources. Therefore, when changes are made to the presentation or classification of an item, it is important that comparative information is restated as if the revised presentation or classification had always applied. However, in some circumstances it may be impracticable to restate some or all of the comparative information to achieve inter-period comparability. This may be the case, for example, when the collection of prior-period data was incomplete so that the comparative information cannot be assembled. When this is the case, information should be disclosed in the notes to provide users with information that is relevant to their decision making.

29. **Comparative information shall be provided in the first *general purpose water accounting report* prepared for a *water report entity*, unless it is impracticable to do so.**
30. **If there is a change in a *water report entity's reporting date*, comparative information shall be provided for the immediately preceding *reporting period*.**
31. The annual *reporting date* for a *water report entity* may, for example, change from 30 June to 31 December. Following the change in *reporting date*, a *general purpose water accounting report* may be prepared for the 6-month *reporting period* ended 31 December. In accordance with paragraph 30, that *general purpose water accounting report* is required to include comparative information for the immediately preceding *reporting period* which is for the year ended 30 June.

#### Consistency of presentation

32. **The presentation and classification of items within *general purpose water accounting reports* shall be retained from one *reporting period* to the next, unless a change results in the *general purpose water accounting report* providing more useful information to users of that report.**
33. Consistency in the presentation and classification of items from one *reporting period* to the next enhances the inter-period comparability of information. However, in certain circumstances a change to the presentation or classification of an item may be appropriate because it results in more useful information being provided to users of the *general purpose water accounting report*. For example, the evolution of new or improved quantification approaches may enable more detailed information to be available about certain items, transactions, transformations or events than was previously the case.
34. When changes are made to the presentation or classification of an item in a *general purpose water accounting report*, comparative information is restated in accordance with paragraph 27.

#### Error corrections

35. ***Prior period errors* shall be corrected in the first *general purpose water accounting report* issued after their discovery by:**
  - a) **restating the comparative information presented for the prior *reporting period(s)* to correct the errors in the *reporting period* in which they occurred; or**
  - b) **if the error occurred before the earliest prior *reporting period* presented, restating the opening balances of *water assets* and *water liabilities* for the earliest prior *reporting period* presented to correct those balances for the errors.**
36. Errors can arise in the recognition, quantification, presentation or disclosure of elements of a *general purpose water accounting report*. *General purpose water accounting reports* do not comply with Australian Water Accounting Standards if they contain errors. Current *reporting period* errors discovered during the *reporting period* are corrected before the *general purpose water accounting report* is issued. However, errors are sometimes not discovered until a subsequent *reporting period*. These *prior period errors* are corrected in the comparative information presented in the *general purpose water accounting report* for that subsequent *reporting period*.

37. *Prior period errors* are omissions from, or misstatements in, the *water report entity's general purpose water accounting report* for one or more *prior reporting periods* arising from a failure to use, or misuse of, reliable information that was either available when the *general purpose water accounting reports* for those *reporting periods* were issued, or could reasonably have been expected to be obtained and reflected in those reports. For example, the volume of an item included in the Statement of Water Assets and Water Liabilities of the prior year may have been misstated. In accordance with paragraph 35, this error is required to be corrected by adjusting the comparative information in the Statement of Water Assets and Water Liabilities in the *general purpose water accounting report* for the current *reporting period*.
38. Changes to volume estimates due to improved quantification approaches are not *prior period errors*. For example, as a result of developing a better understanding of the *water system*, the management of a *water report entity* may refine the models used to estimate the volumes of various items recognised in the *water accounting statements*. The volumes recognised in the *prior reporting period* do not represent *prior period errors* because those estimates were based on information that was available when the *prior reporting period general purpose water accounting report* was issued. Whilst the refined models could be used to re-estimate the *prior reporting period* volumes, the comparative information in the *general purpose water accounting report* for the current *reporting period* is not restated.

#### Events after the reporting period

39. **The volumes recognised in the *water accounting statements* shall be adjusted to reflect *adjusting events after the end of the reporting period*.**
40. The following are examples of *adjusting events after the end of the reporting period* that would require adjustments to be made to the volumes recognised in the *water accounting statements*, or to recognise items that were not previously recognised:
- the receipt of information after the end of the *reporting period* that provides evidence of the volumes of *water assets* or *water liabilities* as at the *reporting date*;
  - the receipt of information after the end of the *reporting period* that provides evidence of the volumes of *changes in water assets* or *changes in water liabilities* during the *reporting period*;
  - the receipt of information after the end of the *reporting period* that provides evidence of the volumes of physical *water flows* during the *reporting period*; or
  - the discovery of errors that show the *water accounting statements* are incorrect.
41. **The volumes recognised in the *water accounting statements* shall not be adjusted to reflect *non-adjusting events after the end of the reporting period*.**
42. An example of a *non-adjusting event after the end of the reporting period* is a change made to a *water resource management instrument* such as a *water sharing plan* after the end of the *reporting period*. Because the change to the instrument is made after the *reporting date*, it does not relate to conditions that existed at the end of the *reporting period*. Accordingly, no adjustments are made to the volumes recognised in the *water accounting statements*.

## Quantification

43. **Except when this Standard permits or requires otherwise, an element recognised in a *general purpose water accounting report* shall be presented using:**
- a) **volume as the quantification attribute; and**
  - b) **litres as the unit of account.**
44. Elements of *general purpose water accounting reports* often possess more than one attribute that can be quantified. Quantifiable attributes of *water assets*, *water liabilities*, *net water assets* and changes in balances of *water assets* and *water liabilities* include, for example, volume, salinity and monetary value.
45. An attribute of an element may be quantified using different units of account. For example, the volume of *water assets* may be quantified in litres, cubic metres or gallons. A *water* quality attribute such as the salinity of *water assets* may be expressed in units of account such as milligrams of dissolved solid per litre or microSiemens per centimetre ( $\mu\text{S}/\text{cm}$ ) at 25°C.
46. This Standard requires an element recognised in a *general purpose water accounting report* to be presented using volume as the quantification attribute and litres as the unit of account. Information about other attributes of an element should also be disclosed when it is relevant to an understanding of the *general purpose water accounting report*.

## Structure and content of general purpose water accounting reports

47. Paragraph 7 outlines the components of a *general purpose water accounting report*. Paragraphs 48-169 prescribe the information to be provided in a *general purpose water accounting report*.

### Contextual Statement

48. **The Contextual Statement shall provide information that enables users to understand the physical and administrative aspects of the *water report entity*. It shall contain contextual information about the *water assets* and *water liabilities* of the *water report entity*, including any conditions that have an impact on the management of those *water assets* and *water liabilities*.**
49. Information about the *water assets* and *water liabilities* of the *water report entity* may, for example, include details of the geographical location of the *water* and actual storage volumes in comparison to total possible storage volumes. Information about conditions that have an impact on the management of those *water assets* and *water liabilities* may, for example, include:
- a) the climatic conditions experienced before and during the *reporting period*; and
  - b) any significant conditions included in, or changes to, institutional or administrative arrangements relevant to the *water report entity*. This would include significant conditions included in, or changes to, *water* resource management instruments such as *water* sharing plans.

## Accountability Statement

50. The Accountability Statement shall provide information that assists users to assess whether:
- a) the *general purpose water accounting report* has been prepared and presented in accordance with Australian Water Accounting Standards;
  - b) externally-imposed requirements relevant to managing the *water assets* and *water liabilities* of the *water report entity* have been complied with; and
  - c) best practices for managing *water assets* and *water liabilities* have been applied.
51. Externally-imposed requirements relevant to managing the *water assets* and *water liabilities* of the *water report entity* include those contained in *water* resource management instruments such as *water* sharing plans and those stemming from other statutory or regulatory requirements.
52. Best practices for managing *water assets* and *water liabilities* are evolving. Whilst there are recognised practices for managing *water assets* and *water liabilities*, there are few that are generally accepted as constituting best practice. Accordingly, compliance with paragraph 50(c) is achieved by identifying in the Accountability Statement the practices that have been adopted for managing *water assets* and *water liabilities*. Users of the report are then assisted in assessing the appropriateness of the practices adopted given the particular circumstances of the *water report entity*.
53. Depending on the nature of the *water report entity*, information may need to be disclosed in the Accountability Statement across multiple distinct areas such as:
- a) *water* sharing and extraction limitations;
  - b) *water* utility service and operations;
  - c) trading of *water* rights and other claims to water;
  - d) environmental stewardship; and
  - e) *water* planning and strategic initiatives.
54. A party may be accountable both for preparing and presenting the *general purpose water accounting report* in accordance with Australian Water Accounting Standards and for managing the *water assets* and *water liabilities* of the *water report entity*. When this is the case:
- a) the following information shall be included in the Accountability Statement
    - i) details of the externally-imposed requirements relevant to managing the *water assets* and *water liabilities*;
    - ii) details of other practices that have been adopted in managing the *water assets* and *water liabilities*;
    - iii) whether the *general purpose water accounting report* has been prepared and presented in accordance with Australian Water Accounting Standards;
    - iv) whether there has been compliance with all externally-imposed requirements relevant to managing the *water assets* and *water liabilities*; and
  - b) the Accountability Statement shall be signed and dated by the person(s) or representative(s) of the management group accountable for preparing and presenting the *general purpose water accounting report* and managing the *water assets* and *water liabilities* of the *water report entity*.

55. A party may be accountable for preparing and presenting the *general purpose water accounting report* in accordance with Australian Water Accounting Standards, but not accountable for managing some or all of the *water assets* and *water liabilities* of the *water report entity*. When this is the case:
- a) the Accountability Statement shall include the following information provided by those accountable for managing the *water assets* and *water liabilities*
    - i) details of the externally-imposed requirements relevant to managing the *water assets* and *water liabilities*; and
    - ii) details of other practices that have been adopted in managing the *water assets* and *water liabilities*;
  - b) the Accountability Statement shall include the following information
    - i) whether the *general purpose water accounting report* has been prepared and presented in accordance with Australian Water Accounting Standards; and
    - ii) whether, based on information provided by those accountable for managing the *water assets* and *water liabilities* of the *water report entity*, there has been compliance with the externally-imposed requirements relevant to managing those *water assets* and *water liabilities*; and
  - c) the Accountability Statement shall be signed and dated by the person(s) or representative(s) of the management group accountable for preparing and presenting the *general purpose water accounting report*.
56. Paragraph 55 is likely to apply when the *general purpose water accounting report* is prepared and presented for a physical *water report entity*, such as a catchment for which there are multiple parties accountable for managing the *water assets* and *water liabilities* included in the *water report entity*.
57. In the event that the statements required by paragraphs 54(a)(iii)–(iv) and 55(b) identify non-compliance with Australian Water Accounting Standards or externally-imposed requirements, the following additional information shall be disclosed in the Accountability Statement:
- a) the nature of the non-compliance;
  - b) the reason(s) for non-compliance; and
  - c) reference to other disclosures in the *general purpose water accounting report* that provide further information relevant to the non-compliance.

### Statement of Water Assets and Water Liabilities

58. The Statement of Water Assets and Water Liabilities shall provide information that enables users to understand the nature and volumes of the *water assets* and *water liabilities* of a *water report entity*.

#### Information to be presented

59. The Statement of Water Assets and Water Liabilities shall contain line items that present the following volumes as at the *reporting date*:
- a) *water assets*;
  - b) *water liabilities*; and
  - c) *net water assets*.

60. **Additional sub-classifications of the line items set out in paragraph 59 shall be presented in the Statement of Water Assets and Water Liabilities when the volume, nature or function of a sub-classified item is such that its separate presentation is relevant to an understanding of the *water report entity's water assets or water liabilities*.**
61. This Standard does not prescribe the order or format in which items are presented in the Statement of Water Assets and Water Liabilities. Additional sub-classification of the items in paragraph 59 are presented when the volumes, nature or function of a sub-item is such that its separate presentation is relevant to an understanding of the *water report entity's water assets or water liabilities*. The requirements and guidance in paragraphs 15-19 on materiality are considered in making this assessment.
62. For example, when a *water report entity* covers more than one *groundwater* management area, it may be appropriate to present disaggregated *groundwater* storage information for each of those management areas if the volumes in each area are such that their separate presentation is relevant to an understanding of the *water report entity's water assets*.
63. Different quantification approaches may be used for different types of *water assets*. This does not, of itself, provide a basis for presenting additional sub-classification of the line item in the Statement of Water Assets and Water Liabilities. However, when those quantification approaches give rise to different levels of quantification accuracy for the *water assets* comprising the line item, information should be disclosed in the notes in accordance with paragraphs 136-138.
64. For example, the approaches used to quantify evaporation may differ depending on where the evaporation occurs. In some cases, evaporation volumes may be derived from measured data. In other cases, evaporation volumes may be estimated using modelling techniques. To the extent that these quantification approaches give rise to different levels of quantification accuracy, information about these different quantification approaches is disclosed in the notes.

## Recognition criteria

### Water assets

65. **An item that meets the definition of a *water asset* shall be recognised in the Statement of Water Assets and Water Liabilities only when:**
- a) **it is probable that future benefits associated with the item will be derived by the individual or organisation that is a *water report entity*, or by a group of stakeholders of a physical *water report entity*; and**
  - b) **the item's volume can be quantified with representational faithfulness (see paragraphs 9-12).**
66. The future benefits embodied in a *water asset* may be derived in several ways. For example, a *water asset* may be:
- a) used singly or in combination with other resources or *water assets*;
  - b) exchanged for other *water assets* or sold;
  - c) used to settle a *water liability* or other obligation; or
  - d) distributed to stakeholders of the *water report entity*.

67. In the case of an individual or organisation that is a *water report entity*, future benefits derived by the *water report entity* are contributions to achieving the economic, environmental, social or other objectives of the *water report entity*. Future benefits that achieve economic objectives of a *water report entity* may be in the form of inflows of economic resources, or prevented or reduced outflows of economic resources. For example, *water* extracted and stored by an organisation that bottles spring *water* that is sold may provide future benefits in the form of sales proceeds. Future benefits that achieve environmental objectives may be in the form of environmental improvements or the prevention or reduction of environmental degradation. For example, *water* behind dam walls may enable an environmental *water* manager to achieve environmental objectives through preserving key ecological assets such as threatened species. *Water* used to achieve social objectives of a *water report entity* may produce future benefits in the form of increased social benefits, or the prevention of the loss of social benefits. For example, a country municipal council in a bushfire-prone area could fill and maintain several *water* ponds or lakes on crown land that are used for recreational or fire-fighting purposes.
68. Future benefits derived by a group of stakeholders of a physical *water entity* are received, either directly or indirectly, by the environment, individuals, organisations or communities such as townships. The benefits can include economic, environmental and social benefits, similar to those described in paragraph 67.
69. For *water* to meet the definition of a *water asset*, it must be of sufficient quality to enable the *water report entity* to derive the future benefits expected from the *water*. For example, a *water report entity* that is a mine may hold contaminated *water* and use state-of-the-art robotic technology for all underground mining operations. Although the contaminated *water* is harmful to humans, it is assumed that it has no harmful effect on the mine's machinery. As a result, the contaminated *water* could be used for dust suppression or cooling machinery underground. The quality of the contaminated *water* is sufficient to enable the mine to derive future benefits and therefore would be recognised as a *water asset* provided it meets the recognition criteria in paragraph 65. In contrast, if human mineworkers were used in the mine's underground mining operations, the contaminated *water* could not be used for dust suppression or cooling as this would be hazardous to the mineworkers. In this case, the quality of the contaminated *water* would not be sufficient to enable the mine to derive any future benefits and therefore would not be recognised as a *water asset*.
70. *Water* that meets the definition of a *water asset* and is expected to satisfy the recognition criteria in paragraph 65 includes *water* in storages behind dams and *water* within lakes and other natural surface features. It also includes *dead storage water*, *conveyance water* and the extractable portion of *groundwater*.
71. The total volume of *groundwater* is often not regarded as a *water asset* because a significant portion of the *groundwater* is non-extractable due to physical or regulatory limitations. However, the portion of the *groundwater* that is extractable provides future benefits because it can be accessed and taken or delivered. Provided the extractable volume can be quantified with representational faithfulness, it is recognised as a *water asset* in the Statement of Water Assets and Water Liabilities.

72. *Dead storage water* provides future benefits to the *water report entity* for the following reasons:
- a) it provides access to the surface *water* above it;
  - b) if the storage level falls below the elevation of the lowest constructed outlet, the *dead storage water* could be accessed and, with some effort and investment, taken or delivered; and
  - c) if the *dead storage water* was not there it would need to be replaced for the storage to function as intended. Consequently, there is a benefit in not having to replace it with other *water assets*.

Therefore, provided its volume can be quantified with representational faithfulness, *dead storage water* is recognised as a *water asset* in the Statement of Water Assets and Water Liabilities.

73. *Conveyance water* provides future benefits for the following reasons:
- a) it enables the delivery of *water* in regulated rivers and utility supply networks by covering the loss of *water* in the delivery process;
  - b) if necessary, it could be accessed and taken or delivered; and
  - c) if *conveyance water* was not part of a delivery system it would need to be replaced for the delivery system to function as intended. Consequently there is a benefit in not having to replace it with other *water assets*.

Therefore, provided its volume can be quantified with representational faithfulness, *conveyance water* is recognised as a *water asset* in the Statement of Water Assets and Water Liabilities.

74. The definition of a *water asset* includes rights or other claims to *water*. For a right or other claim to *water* to meet the definition a *water asset*, it must, for the purpose of this Standard, represent a present right or other present claim to *water*.
75. An example of a present right or other present claim to *water* is a *water* allocation. The allocation determination and announcement, which is made in accordance with the *water* resource management instrument, gives rise to a legal right to access *water*. A present right to *water* would exist at the *reporting date* for any undelivered volumes relating to current or past *reporting period water* allocations. Provided its volume can be quantified with representational faithfulness, the present right as at the *reporting date* is recognised as a *water asset* in the Statement of Water Assets and Water Liabilities. Importantly, it is only the undelivered volumes relating to current or past *reporting period water* allocations that give rise to a present right. The right to *water* under an allocation relating to future *reporting periods* is not a present right but rather a future *water* right.
76. A *water* resource management instrument may specify a monthly minimum flow of *water* from one *water report entity* to another to the extent that there is available *water*. These arrangements are often referred to as ongoing *water* commitments. Typically, an inability to deliver *water* in a particular month due to insufficient *water* does not result in a carryover of the undelivered amount. When this is the case, the receiving *water report entity* does not have a present right at the *reporting date* for the undelivered volumes. However, a present right would exist at the *reporting date* for any undelivered volumes relating to past months for which sufficient *water* was available to meet the minimum flow requirements. Provided the undelivered volume meets the other necessary aspects of the *water asset* definition and can be quantified with representational faithfulness, it is recognised as a *water asset* in the Statement of Water Assets and Water Liabilities.

Importantly, it is only the undelivered volumes relating to past months for which there was sufficient *water* available to meet the minimum flow requirements that give rise to a present right at the *reporting date*. The right to *water* in future *reporting periods* under an ongoing *water* commitment is not a present right.

#### **Future water rights**

**77. A future *water* right shall not be recognised in the Statement of Water Assets and Water Liabilities.**

78. A future *water* right is a right or other claim to *water* that relates to future *reporting periods*. A future *water* right is not, at the *reporting date*, a present right or other present claim to *water* of the *water report entity* and is therefore not recognised as a *water asset* in the Statement of Water Assets and Water Liabilities.
79. An example of a future *water* right is a *water* allocation that grants the right to access a volume of *water* in a future *reporting period*. This is not a present right to *water* because it does not represent undelivered volumes relating to current or past *reporting period water* allocations. It is therefore not recognised as a *water asset* at the *reporting date*. However, information about future *water* rights expected to be realised within 12 months of the *reporting date* is disclosed in the notes in accordance with paragraphs 140-146.
80. A *water* resource management instrument may specify a minimum flow of *water* from one *water report entity* to another to the extent there is sufficient *water* to meet that minimum flow. These arrangements are often referred to as ongoing *water* commitments. The expected future delivery of *water* that relates to the *water report entity's* entitlement to *water* in a future *reporting period* is not, at the *reporting date*, a present right or other present claim to *water* because it does not represent undelivered volumes relating to the current or past *reporting periods*. It is therefore not recognised as a *water asset* at the *reporting date*. However, information about future *water* rights expected to be realised within 12 months of the *reporting date* is disclosed in the notes in accordance with paragraphs 140-146.

#### **Contingent water assets**

**81. A contingent *water asset* shall not be recognised in the Statement of Water Assets and Water Liabilities.**

82. A *contingent water asset* is a possible *water asset* that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the management of the *water report entity*.
83. The total volume of *groundwater* is often not regarded as a *water asset* because a significant portion of the *groundwater* is non-extractable due to physical or regulatory limitations. The non-extractable portion of the *groundwater* is a *contingent water asset* because it is possible that a change in circumstances, such as legislative or regulatory changes that alter the extractive limits would result in further portions of the *groundwater* becoming available for extraction.
84. A *water* resource management instrument may specify a minimum flow of *water* from one *water report entity* to another to the extent there is sufficient *water* to meet that minimum flow. These arrangements are often referred to as ongoing *water* commitments. A right to receive *water* in the future under an ongoing *water* commitment is a *contingent water asset* because it is possible that *water* will be received in the future to the extent it is available to be delivered.

85. *Contingent water assets* are not recognised in the Statement of Water Assets and Water Liabilities because they satisfy neither the definition of a *water asset* nor the recognition criteria in paragraph 65. However, information about *contingent water assets* is disclosed in accordance with paragraphs 147-149.

#### **Water liabilities**

86. **An item that meets the definition of a *water liability* shall be recognised in the Statement of Water Assets and Water Liabilities only when:**
- a) **it is probable that the present obligation will result in a decrease in the *water report entity's water assets* or an increase in another *water liability* when the obligation is discharged; and**
  - b) **the item's volume can be quantified with representational faithfulness (see paragraphs 9-12).**
87. An essential characteristic of a *water liability* is that there exists a present obligation. An obligation is a duty or responsibility to act or perform in a certain way. An obligation can be a *legal obligation* or a *constructive obligation*.
88. A past event that leads to a present obligation is called an *obligating event*. For an event to be an *obligating event*, it is necessary that the management of the *water report entity* has no realistic alternative but to settle the obligation created by the event. This will be the case only when the event gives rise to:
- a) a *legal obligation*; or
  - b) a *constructive obligation* because the past event, which may be an action of the *water report entity*, has created a valid expectation by other parties that the obligation will be discharged.
89. An example of a present obligation is *allocation carryover*. The allocation determination and announcement, which is made in accordance with the *water* resource management instrument, represents the *obligating event* and gives rise to a *legal obligation* for the *water* to be taken or delivered. Provided its volume can be quantified with representational faithfulness, *allocation carryover* as at the *reporting date* is recognised as a *water liability* in the Statement of Water Assets and Water Liabilities.
90. A *water* resource management instrument may specify a monthly minimum flow of *water* from one *water report entity* to another to the extent that there is available *water*. These arrangements are often referred to as ongoing *water* commitments. Typically, an inability to deliver *water* in a particular month due to insufficient *water* does not result in a carryover of the undelivered volume. When this is the case, the providing *water report entity* does not have a present obligation at the *reporting date* for the undelivered volumes. However, a present obligation would exist at the *reporting date* for any undelivered volumes relating to past months for which sufficient *water* was available to meet the minimum flow requirements. In such circumstances, the *obligating event* is the availability of *water* to meet the minimum flow requirements for a particular month. Provided the undelivered volume meets the other necessary aspects of the *water liability* definition and can be quantified with representational faithfulness, it is recognised as a *water liability* in the Statement of Water Assets and Water Liabilities. Importantly, it is only the undelivered volumes relating to past months for which there was sufficient *water* available to meet the minimum flow requirements that give rise to a present obligation at the *reporting date*. The requirement to deliver *water* in future *reporting periods* under an ongoing *water* commitment is not a present obligation but rather a *future water commitment*.

91. A *constructive obligation* may arise, for example, when the management of the *water report entity* has indicated to other parties that a certain volume of *water* will be returned to the environment each *reporting period* and in doing so has created a valid expectation on the part of those parties that the *water* will be returned if sufficient *water* is available. A present obligation exists at the *reporting date* for any *water* that is yet to be returned to the environment in accordance with management's decision. Provided the volume yet to be delivered for the current *reporting period* meets the other necessary aspects of the *water liability* definition and can be quantified with representational faithfulness, it is recognised as a *water liability* in the Statement of Water Assets and Water Liabilities. Importantly, it is only the *water* that is expected to be delivered in accordance with the decision that relates to the current or past *reporting periods* that gives rise to a present obligation at the *reporting date*. A decision to return *water* in future *reporting periods* is not a present obligation but rather a *future water commitment*.

#### **Future water commitment**

92. **A *future water commitment* shall not be recognised in the Statement of Water Assets and Water Liabilities.**
93. *Future water commitments* are expected future demands on *water* influenced by the availability and management of the *water assets* and *water liabilities* of the *water report entity*. They may arise as a result of externally-imposed requirements or best practice for managing *water assets* and *water liabilities*. *Future water commitments* are not, at the *reporting date*, present obligations of the *water report entity* and are therefore not recognised as *water liabilities* in the Statement of Water Assets and Water Liabilities.
94. Expected future *water* allocations are not, at the *reporting date*, present obligations of the *water report entity*. Rather, they represent expected future demands on *water* influenced by the availability and the management of the *water assets* and *water liabilities* of the *water report entity*. They are therefore not recognised as *water liabilities* at the *reporting date*. However, information about *future water commitments* expected to be settled within 12 months of the *reporting date* is disclosed in the notes in accordance with paragraphs 140-146.
95. Similarly, the expected future delivery of *water* to a wetland is not, at the *reporting date*, a present obligation of the *water report entity*, unless it represents, at the *reporting date*, an outstanding delivery of *water* under a *water* resource management instrument for which all the criteria for delivery, including the due date for delivery and the availability of *water*, have passed or been met.

#### **Contingent water liabilities**

96. **A *contingent water liability* shall not be recognised in the Statement of Water Assets and Water Liabilities.**
97. A *contingent water liability* is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the management of the *water report entity*.
98. A *water* resource management instrument may specify a monthly minimum flow of *water* from one *water report entity* to another to the extent there is available *water*. These arrangements are often referred to as ongoing *water* commitments. An inability to deliver *water* in a particular month due to insufficient *water* does not generally result in a carryover of the undelivered amount. The requirement to deliver *water* in future *reporting periods* under an ongoing *water* commitment is a *contingent water liability* because the delivery of *water* is dependent on sufficient *water* being available in a given future month.

99. *Contingent water liabilities* are not recognised in the Statement of Water Assets and Water Liabilities because they satisfy neither the definition of a *water liability* nor the recognition criteria in paragraph 86. However, information about *contingent water liabilities* is disclosed in accordance with paragraphs 147-149.
100. A *contingent water liability* may also represent a *future water commitment*. To the extent that a *contingent water liability* is also a *future water commitment* expected to be settled within 12 months of the *reporting date*, information about that *future water commitment* is disclosed in accordance with paragraphs 140-146.

## Statement of Changes in Water Assets and Water Liabilities

- 101. The Statement of Changes in Water Assets and Water Liabilities shall contain information that enables users to understand changes in the volumes and nature of the water report entity's net water assets during the reporting period.**
102. The Statement of Changes in Water Assets and Water Liabilities provides information on transactions, transformations and events that give rise to *changes in water assets* or *changes in water liabilities*, irrespective of whether those transactions, transformations or events represent physical *water* flows. For example, *allocation carryover* represents volumes of *water* that a *water report entity* is obliged to make available to be taken and delivered at the *reporting date* as a consequence of an allocation determination and announcement before the end of the *reporting period* under a *water* sharing plan. The *allocation carryover* is recognised as a *water liability* at the *reporting date*. The balance of the *allocation carryover* liability changes from one *reporting period* to the next as a result of the following events:
- a) it is increased as a result of allocation determination and announcements made during a *reporting period*;
  - b) it is decreased as a result of the physical outflow of *water* to settle allocations; and
  - c) other events such as evaporation adjustments applied to *allocation carryover* in accordance with a *water* sharing plan.

The Statement of Changes in Water Assets and Water Liabilities reflects the impact of each of the events identified in paragraph 102 (a)-(c).

### Information to be presented

- 103. The Statement of Changes in Water Assets and Water Liabilities shall contain line items that present the following volumes for the reporting period:**
- a) *water asset* increases;
  - b) *water asset* decreases;
  - c) *water liability* increases;
  - d) *water liability* decreases; and
  - e) *change in net water assets*.
104. Additional sub-classifications of the line items set out in paragraph 103 shall be presented in the Statement of Changes in Water Assets and Water Liabilities when the volume, nature or function of a sub-classified item is such that its separate presentation is relevant to understanding the changes in the *water report entity's net water assets* during the *reporting period*.

105. This Standard does not prescribe the order or format in which items are presented in the Statement of Changes in Water Assets and Water Liabilities. Additional sub-classifications of the items in paragraph 103 are presented when the volume, nature or function of a sub-item is such that its separate presentation is relevant to understanding the changes in the *water report entity's net water assets* during the *reporting period*. The requirements and guidance in paragraphs 15-19 on materiality are considered in making this assessment.
106. For example, when a *water report entity* experiences significant volumes of evaporation relative to other forms of *water asset* decreases, it may be appropriate to disaggregate *water asset* decreases to present separately the volumes attributable to evaporation.

#### Recognition criteria

107. An item that meets the definition of a *change in a water asset* or a *change in a water liability* shall be recognised in the Statement of Changes in Water Assets and Water Liabilities only when:
- it is probable that there has been a *change in a water asset* or a *change in a water liability*;
  - the *water asset* or *water liability* that has increased or decreased is recognised in the Statement of Water Assets and Water Liabilities; and
  - the volume of change in the *water asset* or *water liability* can be quantified with representational faithfulness (see paragraphs 15-19).
108. When there is an unexplained change in *water assets* and *water liabilities* during the *reporting period*, this volume is presented in the Statement of Changes in Water Assets and Water Liabilities as an unaccounted-for difference.

#### Statement of Physical Water Flows

109. The Statement of Physical Water Flows shall contain information that enables users to understand the nature and volumes of physical *water flows* experienced by the *water report entity* during the *reporting period*.
110. The Statement of Physical Water Flows provides information on transactions, transformations and events that give rise to physical *water flows* during the *reporting period*. For example, in the case of *water liabilities* arising from *allocation carryover*, the Statement of Physical Water Flows will:
- include the effect of decreases in the *water liability* resulting from the physical outflow of *water* to settle the announced allocation; and
  - exclude the effects of allocation determinations and announcements made during the *reporting period* that remain undelivered at the *reporting date*. This is because they have not given rise to a physical *water flow* during the *reporting period*.

#### Information to be presented

111. The Statement of Physical Water Flows shall include line items that present the following volumes for the *reporting period*:
- water inflows*;
  - water outflows*;
  - change in water storage*;
  - opening water storage*; and
  - closing water storage*.

112. **Additional sub-classifications of the line items set out in paragraph 111 shall be presented in the Statement of Physical Water Flows when the volume, nature or function of a sub-classified item is such that its separate presentation is relevant to understanding the physical water flows of the water report entity during the reporting period.**
113. This Standard does not prescribe the order or format in which items are presented in the Statement of Physical Water Flows. Additional sub-classifications of the items in paragraph 111 are presented when the volume, nature or function of a sub-item is such that its separate presentation is relevant to understanding the physical water flows of the water report entity during the reporting period. The requirements and guidance in paragraphs 15-19 on materiality are considered in making this assessment.
114. For example, when a water report entity has significant volumes of spills relative to other forms of water outflows, it may be appropriate to disaggregate water outflows to present separately the volumes attributable to spills.
115. Because the Statement of Physical Water Flows provides information about the physical water flows of a water report entity, the water storages referred to in that Statement relate only to physical water assets either held or managed by the water report entity. They do not include water assets in the nature of water rights for which the water has not yet been taken or delivered.
116. When there is an unexplained change in the volume of physical water assets during the reporting period, this volume is presented in the Statement of Physical Water Flows as an unaccounted-for difference.

### Group water accounting reports

117. **A group water accounting report shall be prepared for a group water report entity by applying the requirements and guidance in this Standard.**

#### Procedures for preparing group water accounting reports

118. A group water accounting report is the water accounting report of a group water report entity presented as a single water report entity. In preparing a group water accounting report, the preparer:
- combines the water accounting reports of the water entities comprising the group by aggregating, line by line, like items of water assets, water liabilities, net water assets, changes in water assets, changes in water liabilities, water inflows and water outflows; and
  - eliminates transactions between the water entities comprising the group to ensure there is no overstatement or double-counting of water assets, water liabilities, changes in water assets, changes in water liabilities, water inflows or water outflows.
119. For example, when the water outflows from one water entity represent the water inflows of another water entity within the same group, aggregating the water accounting statements of these water entities would result in an overstatement of water inflows and water outflows. When preparing the group water accounting report for the group, adjustments are made to avoid this overstatement.

120. The *water accounting reports* of the *water entities* used to prepare the *group water accounting report* shall be prepared as of the same date. If the *reporting date* for the group is different from that of a *water entity* within the group, additional *water accounting statements* shall be prepared for that *water entity* as of the same date and for the same *reporting period* as the *group water accounting report* to enable the group report to be prepared.
121. A *group water accounting report* shall be prepared using uniform *water accounting policies* for like transactions, transformations and events.

## Note disclosures

### Content and presentation

122. The following information shall be disclosed in the notes:
- a) a statement that, except for physical *water flow* information, the *general purpose water accounting report* has been prepared using the accrual basis of *water accounting*;
  - b) a summary of the significant *water accounting policies* used in the preparation of the *general purpose water accounting report* (see paragraphs 125-127);
  - c) information required to be disclosed by this Standard that is not presented elsewhere in the *general purpose water accounting report*; and
  - d) any additional information not explicitly required by this Standard that is relevant to an understanding of
    - i) the *water assets and water liabilities* of the *water report entity*; and
    - ii) the management of those *water assets and water liabilities*.
123. The notes shall be presented in a systematic manner. Cross-references shall be provided for each item in the *water accounting statements* to any related information in the notes.
124. To assist users' understanding of the information included in *general purpose water accounting reports* and to facilitate comparisons, the notes are normally presented in the following order:
- a) summary of significant *water accounting policies* (see paragraphs 125-127);
  - b) supporting information for items presented in the *water accounting statements* in the order in which each statement and each item is presented, including:
    - i) information about the restatement of comparative information (see paragraphs 128-129);
    - ii) information about *prior period errors* (see paragraphs 130-131);
    - iii) information about *non-adjusting events after the end of the reporting period* (see paragraphs 132-135);
    - iv) information about quantification approaches (see paragraphs 136-138);
    - v) reconciliations and other information related to the Statement of Physical Water Flows (see paragraph 139); and

- c) other notes, including information about
  - i) future prospects (see paragraphs 140-146);
  - ii) *contingent water assets* and *contingent water liabilities* (see paragraphs 147-149);
  - iii) *water assets* and *water liabilities* that fail the recognition criteria (see paragraphs 150-151);
  - iv) *water rights*, *water allocations* and *water restrictions* (see paragraphs 152-153);
  - v) *water market activity* (see paragraphs 154-156);
  - vi) *water* for environmental, social and cultural, and economic benefit (see paragraphs 157-160);
  - vii) segment information (see paragraphs 161-165); and
  - viii) *group water accounting reports* (see paragraph 166).

### Significant water accounting policies

125. The following information shall be disclosed in the summary of significant *water accounting policies*:

- a) the quantification attribute and the unit of account used in the *water accounting statements*; and
- b) details of other *water accounting policies* used in the preparation and presentation of the *general purpose water accounting report* that are relevant to an understanding of the *water accounting statements*.

126. In deciding whether a particular *water accounting policy* should be disclosed, it is necessary to consider whether disclosure would assist users in understanding how transactions, transformations and events are reflected in the *water accounting statements*.

127. A *water accounting policy* may be significant because of the nature of the operations of the *water report entity* even if volumes for current and prior *reporting periods* are not material.

### Restatement of comparative information

128. When comparative information is restated in accordance with paragraph 27, the following information shall be disclosed in the notes:

- a) the nature of the restatement;
- b) the items presented in the *general purpose water accounting report* that have been affected by the restatement and the volume of the restatement of each such item; and
- c) an explanation of why the presentation or classification changes that have caused the restatement result in more useful information being provided to users of the *general purpose water accounting report*.

129. When, in accordance with paragraph 27, it is impracticable to restate comparative information, the following shall be disclosed in the notes:

- a) an explanation of why restatement is impracticable; and
- b) an explanation of why the presentation or classification changes made in accordance with paragraph 32 result in more useful information being provided to users of the *general purpose water accounting report*.

### Prior period errors

**130. Information shall be disclosed in the notes that assists users to understand the nature and volume of any *prior period error* corrections.**

131. To give effect to the principle in paragraph 130, the following information is disclosed in the notes:

- a) the nature of the *prior period error*;
- b) for each prior *reporting period* presented, to the extent practicable, the amount of the correction for each line item affected;
- c) the amount of the correction at the beginning of the earliest prior *reporting period*; and
- d) if retrospective restatement is impracticable, the reasons why this is the case and a description of how and from when the *prior period error* has been corrected. *General purpose water accounting reports* of subsequent *reporting periods* need not repeat these disclosures.

### Non-adjusting events after the end of the reporting period

**132. Information shall be disclosed in the notes that assists users to understand the impact that *non-adjusting events after the end of the reporting period* will have on the *water assets* and *water liabilities* of the *water report entity*.**

133. *Non-adjusting events after the end of the reporting period* provide evidence of conditions that arose after the end of the *reporting period*. Accordingly, they are not reflected in the *water accounting statements* for the current *reporting period*. However, if *non-adjusting events after the end of the reporting period* are material, non-disclosure could influence the decisions that users make on the basis of the *general purpose water accounting report*. Therefore, information about such events is required to be disclosed in the notes.

134. To give effect to the principle in paragraph 132, the following information is disclosed in the notes:

- a) the nature of the event; and
- b) an estimate of the impact of the event on the *water assets* and *water liabilities* of the *water report entity*.

135. The following are examples of *non-adjusting events after the end of the reporting period* for which disclosure may be appropriate:

- a) extreme precipitation after the end of the reporting period that results in a significant increase in *water storages*;
- b) changes that occur after the end of the *reporting period* to *water resource management instruments* such as *water sharing plans*;
- c) damage that occurs after the end of the *reporting period* to *water storage infrastructure* that results in a significant loss of *water*; and
- d) major post-*reporting date* purchases of *water rights* by the management of the *water report entity*.

### Quantification approaches

**136. Information shall be disclosed in the notes to assist users to understand the approaches used to quantify items presented in the *water accounting statements*.**

137. Different quantification approaches may be used for the various items presented in the *water accounting statements*. Those quantification approaches may give rise to materially different levels of quantification accuracy. Therefore, information is provided to assist users in understanding how an item's volume has been determined.

138. To give effect to the principle in paragraph 136, the following information is disclosed in the notes:

- a) the quantification approaches used for the items;
- b) a statement as to whether the quantification approaches are in accordance with relevant quantification standards or established practices and the identification of those standards and practices;
- c) details of any quality assurance processes underpinning the quantification approaches;
- d) the levels of accuracy or precision achieved by the quantification approaches; and
- e) the sensitivities of the quantifications to key assumptions used in the quantification approaches.

### Statement of Physical Water Flows: Reconciliations and other information

**139. The following information shall be disclosed in the notes:**

- a) a reconciliation of the *change in water storage* presented in the Statement of Physical Water Flows to the *change in net water assets* presented in the Statement of Changes in Water Assets and Water Liabilities;
- b) the items comprising both *opening water storage* and *closing water storage* presented in the Statement of Physical Water Flows; and
- c) a reconciliation of *closing water storage* presented in the Statement of Physical Water Flows to total *water assets* presented in the Statement of Water Assets and Water Liabilities.

### Future prospects

**140. Information shall be disclosed in the notes that assists users to understand the future prospects of the *water report entity*.**

141. To give effect to the principle in paragraph 140, the following information is disclosed in the notes:

- a) total *water assets*;
- b) *water* not available to be accessed and taken or delivered;
- c) the difference between a) and b), which is the portion of *water assets* recognised in the Statement of Water Assets and Water Liabilities that will be available to be accessed and taken or delivered within 12 months of the *reporting date*;

- d) the volumes of:
    - i) *water liabilities* recognised in the Statement of Water Assets and Water Liabilities that are expected to be settled within 12 months of the *reporting date*; and
    - ii) *future water commitments* expected to be settled within 12 months of the *reporting date*;
  - e) the difference between c) and d), which is the surplus or deficit of available *water assets* over both *water liabilities* and *future water commitments* expected to be settled within 12 months of the *reporting date*; and
  - f) information about expected inflows to the *water report entity* within 12 months of the *reporting date* under various climatic conditions. For example, under extreme dry, dry, median and wet conditions. This also includes information about any future *water rights*.
142. *Dead storage water* is *water* that is below the elevation of the lowest constructed outlet. It meets the definition of a *water asset*, however it is typically not available to be accessed and taken or delivered to settle *water liabilities* or *future water commitments*. Therefore, it typically forms part of the disclosure required by paragraph 141(b).
143. *Conveyance water* is *water* required to operate regulated rivers and utility supply networks to enable the delivery of *water*. It meets the definition of a *water asset*, however it is typically not available to be accessed and taken or delivered to settle *water liabilities* or *future water commitments*. Therefore, it typically forms part of the disclosure required by paragraph 141(b).
144. A present right or other present claim to *water* may meet the definition of a *water asset*, however conditions attached to the right or other claim to *water* may prevent the *water report entity* from accessing and taking or delivering the *water* within 12 months of the *reporting date*. For example, the volume of *water* that is permitted to be taken within 12 months of the *reporting date* may be capped. The excess volume over the capped amount is not available to be accessed and taken or delivered to settle *water liabilities* or *future water commitments* within 12 months of the *reporting date*. Therefore, it forms part of the disclosure required by paragraph 141(f).
145. A future *water right* does not meet the definition of a *water asset*. However, the management of the *water report entity* may expect the future *water right* to be realised within 12 months of the *reporting period*. For example, a right may exist to *water* under an allocation that relates to the 12-month period after the *reporting date*. As such, estimated volumes form part of the disclosure required by paragraph 141(f).
146. In some circumstances it may be appropriate to also disclose information that enables users to understand the future prospects of the *water report entity* beyond 12 months. For example, this would be the case when the management of the *water report entity* is required to ensure the availability of *water* through multi-year droughts.

#### **Contingent water assets and contingent water liabilities**

- 147. Information shall be disclosed in the notes that assists users to understand the nature and volume of *contingent water assets* and *contingent water liabilities* at the *reporting date*.**
148. To give effect to the principle in paragraph 147, a brief description of the nature of each *contingent water asset* and *contingent water liability* is included in the notes. When practicable, information about volumes is also disclosed, such as estimated volumes or minimum and maximum estimated volumes.

149. A *contingent water liability* may also represent a *future water commitment*. To the extent that a *contingent water liability* is also a *future water commitment* expected to be settled within 12 months of the *reporting date*, information about that *future water commitment* is disclosed in accordance with paragraphs 140-146.

#### **Water assets and water liabilities that fail the recognition criteria**

**150. Information shall be disclosed in the notes that assist users to understand the nature of items that meet the definition of *water assets* or *water liabilities*, but do not meet the recognition criteria for *water assets* or *water liabilities*.**

151. To give effect to the principle in paragraph 150, the following information is disclosed in the notes:
- a) a brief description of the nature of each item;
  - b) the recognition criteria that the item failed to meet;
  - c) information about volumes, such as the range of possible volumes; and
  - d) if any of the information required by paragraphs 151(c) is not disclosed because it is not practicable, that fact shall be disclosed.

#### **Water rights, water allocations and water restrictions**

**152. Information shall be disclosed in the notes that assists users to understand the nature and volumes of *water rights*, *water allocations* and *water restrictions* that relate to *water assets* and *water liabilities* of the *water report entity*.**

153. To give effect to the principle in paragraph 152, the following information is disclosed in the notes:
- a) for each type of *water right* that existed during the *reporting period*:
    - i) a brief description of the nature of the *water right*;
    - ii) details of the attributes of the *water right*, including share or volume, reliability classification, *water quality* classification and tradability; and
    - iii) details of any new issue, cancellation or conversion of the *water right*;
  - b) details of any changes to administrative arrangements during the *reporting period* that affect *water rights*, *water allocations* or *water restrictions*; and
  - c) details of any *water allocation* determinations and announcements or any *water restrictions* either imposed or amended during the *reporting period*.

#### **Water market activity**

**154. Information shall be disclosed in the notes that assists users to understand the nature and volumes of *water market activity* that occurred during the *reporting period* that relates to rights or claims to *water* of the *water report entity*.**

155. To give effect to the principle in paragraph 154, the following information is disclosed in the notes:
- a) details of the number, volumes, origins and destinations of trades that have occurred during the *reporting period* for each type of right or claim to *water* of the *water report entity*; and

- b) other information relevant to an understanding of *water* market activity. This would include, for example, details of externally-imposed limitations on the trading of *water* rights of the *water report entity*, compliance with those limitations and any changes to the limitations during the *reporting period*.
156. Rights or claims to *water* of the *water report entity* includes, for example, *water* entitlements and allocation of the stakeholders. Information about the trading of these and other rights or claims to *water* of the *water report entity* is required to be disclosed in accordance with paragraph 155. For example, when a holder of a right or claim to *water* of the *water report entity* sells that right or claim during the *reporting period*, information about that trade is required to be disclosed in the *water report entity's general purpose water accounting report*.

#### **Water for environmental, social and cultural, and economic benefit**

**157. Information shall be disclosed in the notes that enables users to understand how *water assets* and *water liabilities* of the *water report entity* have been used during the *reporting period* in the pursuit of each of the following:**

- a) **environmental benefit;**
- b) **social and cultural benefit; and**
- c) **economic benefit.**

#### **Water related to environmental benefit**

158. To give effect to the principle in paragraph 157(a), the following information is disclosed in the notes:
- a) details of non-discretionary or rules-based provisions in externally-imposed requirements aimed primarily at environmental benefit. This includes information about the objective, nature and volumes of such provisions;
  - b) details of any changes in non-discretionary or rules-based provisions in externally-imposed requirements aimed primarily at environmental benefit;
  - c) details of holdings of *water* rights aimed primarily at environmental benefit and discretionary provisions in externally-imposed requirements aimed primarily at environmental benefit. This includes:
    - i) details of who holds or controls such holdings and discretionary provisions;
    - ii) a description of the attributes of the holdings and discretionary provisions including the related environmental objectives;
    - iii) any changes to the holdings, including details of any *water* entitlement or *water* allocation trading, and any changes to the discretionary provisions during the *reporting period*; and
    - iv) the volumes, origins and destinations of *water* accessed and taken or delivered during the *reporting period*; and
  - d) information that allows users to understand compliance by the management of the *water report entity* with the rules and changes to the rules disclosed in accordance with sub-paragraphs a) and b) above.

### Water related to social and cultural benefit

159. To give effect to the principle in paragraph 157(b), details are disclosed in the notes of any rights or customs relating to social and cultural benefit associated with the *water assets* and *water liabilities* of the *water report entity*, whether arising from externally-imposed requirements or good practice. This includes:

- a) a brief description of the social and cultural rights, customs and associated objectives; and
- b) details of the nature of *water* associated with the rights or customs, the levels or flows maintained and the volumes, origins and destinations of *water* accessed and taken or delivered, or not accessed and taken or not delivered, during the *reporting period*.

### Water related to economic benefit

160. To give effect to the principle in paragraph 157(c), information is disclosed in the notes about the purpose, nature and volume of *water* accessed and taken or delivered during the *reporting period* to achieve economic benefits.

### Segment information

**161. When information about discrete components of the *water report entity* would affect the decisions, assessments or evaluation users make on the basis of the *general purpose water accounting report*, information that will allow users to evaluate those discrete components shall be disclosed.**

**162. Each discrete component for which information is disclosed in accordance with paragraph 161 shall be described as a segment of the *water report entity*.**

**163. Segments shall be identified by considering the physical and administrative aspects of the *water report entity*. The identification of segments shall be retained from one *reporting period* to the next, unless a change provides more useful information to users of the *general purpose water accounting report*.**

164. Segments are identified by considering the physical and administrative aspects of the *water report entity*. *Water assets* and *water liabilities* that are managed independently of other *water assets* and *water liabilities* would typically be identified as a segment. This could be due to the location of a *water report entity's water assets* and *water liabilities*. For example, different administrative arrangements may apply to *water* resources in different locations. It may be appropriate to consider each location as a separate segment. Alternatively, *water assets* and *water liabilities* may be managed independently due to the nature of the *water assets* and *water liabilities*. For example, unregulated and regulated *water assets* may be subject to different *water* resource management instruments that may require the *water assets* to be managed independently of each other. It may be appropriate in these circumstances to consider the *water assets* subject to the different instruments as separate segments.

165. To give effect to the principle in paragraph 161, the following information is disclosed in the notes for each segment:

- a) contextual information, to the extent it is not provided elsewhere in the *general purpose water accounting report*, including:
  - i) a description of the segment, including location of its *water assets* and *water liabilities*;
  - ii) climatic conditions for the current and past *reporting periods*;
  - iii) administrative arrangements relating to the *water assets* and *water liabilities*; and
  - iv) identification of the parties responsible for managing the *water assets* and *water liabilities*;
- b) the volumes of:
  - i) *water assets*;
  - ii) *water liabilities*;
  - iii) *changes in water assets* and *changes in water liabilities* during the *reporting period*; and
  - iv) *water flows* during the *reporting period* including inter-segment flows; and
- c) any additional information that is relevant to an understanding of the *water assets* and *water liabilities* of the segment and the management of those *water assets* and *water liabilities*.

The notes also disclose a reconciliation of aggregate segment volumetric information to totals presented in the *water accounting statements*.

#### Group water accounting reports

**166. A list of all *water entities* comprising the *group water report entity* shall be disclosed in the notes to a *group water accounting report*.**

### Assurance Statement

**167. An explicit statement of whether the *general purpose water accounting report* is presented fairly in accordance with this Standard shall be provided in the Assurance Statement.**

168. Assurance refers to the attestation of whether the *general purpose water accounting report* is presented fairly in accordance with the requirements of this Standard. The assurance function is important to enhancing users' confidence in the veracity of the information being presented.

**169. The Assurance Statement shall be prepared by an appropriately qualified and independent assurance provider.**

## Appendix – defined terms

<b>adjusting event after the reporting period</b>	An event that occurs between the end of the <i>reporting period</i> and the date when the Accountability Statement is signed that provides evidence of conditions that existed at the end of the <i>reporting period</i> .
<b>allocation carryover</b>	Water allocated in a <i>reporting period</i> in accordance with a <i>water resource management instrument</i> that is yet to be accessed, taken or delivered at the <i>reporting date</i> and is able to be carried over to the next <i>reporting period</i> .
<b>change in net water assets</b>	The change in <i>net water assets</i> for the <i>water report entity</i> from one <i>reporting date</i> to the next.
<b>change in water assets</b>	Increases or decreases in the <i>water report entity's water assets</i> from one <i>reporting date</i> to the next.
<b>change in water liabilities</b>	Increases or decreases in the <i>water report entity's water liabilities</i> from one <i>reporting date</i> to the next.
<b>change in water storage</b>	The change in <i>water storage</i> for a <i>water report entity</i> from one <i>reporting date</i> to the next.
<b>closing water storage</b>	The total <i>water storage</i> for a <i>water report entity</i> at the <i>reporting date</i> .
<b>constructive obligation</b>	An obligation that derives from actions of the management of a <i>water report entity</i> whereby:  a) an established pattern of past practice, published policies or sufficiently specific current statement means that the management of the <i>water report entity</i> has indicated to other parties that it will accept certain responsibilities; and  b) as a result, a valid expectation has been created on the part of those other parties that the management of the <i>water report entity</i> will discharge those responsibilities.
<b>contingent water asset</b>	A possible <i>water asset</i> that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the management of the <i>water report entity</i> .
<b>contingent water liability</b>	A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the management of the <i>water report entity</i> .

<b>conveyance water</b>	<i>Water</i> required primarily to operate regulated rivers and utility supply networks to enable the delivery of <i>water</i> .
<b>dead storage water</b>	<i>Water</i> in a storage that is below the elevation of the lowest constructed outlet.
<b>future water commitment</b>	An expected future demand for <i>water</i> influenced by the availability and management of the <i>water assets</i> and <i>water liabilities</i> of the <i>water report entity</i> . It may arise as a result of an externally-imposed requirement or best practices for managing <i>water</i> resources.
<b>general purpose water accounting report</b>	A <i>water accounting report</i> intended to meet the information needs common to users who are unable to command the preparation of <i>water accounting reports</i> tailored to satisfy their information needs. A <i>general purpose water accounting report</i> is prepared in accordance with Australian Water Accounting Standards and comprises a Contextual Statement, an Accountability Statement, <i>water accounting statements</i> , accompanying note disclosures and an Assurance Statement.
<b>groundwater</b>	Subsurface <i>water</i> in soils and geological formations that are fully saturated.
<b>group water accounting report</b>	The <i>water accounting report</i> of a <i>group water report entity</i> presented as a single <i>water entity</i> .
<b>group water report entity</b>	A <i>water report entity</i> comprising individual <i>water entities</i> and for which a <i>group water accounting report</i> is required to be prepared under a regulation, statute or directive.
<b>legal obligation</b>	An obligation that derives from: <ul style="list-style-type: none"> <li>a) a contract;</li> <li>b) legislation; or</li> <li>c) other operation of law.</li> </ul>
<b>net water assets</b>	The excess of the <i>water assets</i> of the <i>water report entity</i> after deducting all of its <i>water liabilities</i> .
<b>non-adjusting event after the end of the reporting period</b>	An event that occurs between the end of the <i>reporting period</i> and the date when the Accountability Statement is signed that relates to conditions that arose after the end of the <i>reporting period</i> .
<b>obligating event</b>	An event that creates a <i>legal</i> or <i>constructive obligation</i> that results in the management of a <i>water report entity</i> having no realistic alternative to settling that obligation.

<b>opening water storage</b>	The total <i>water storage</i> for a <i>water report entity</i> at the beginning of the <i>reporting period</i> .
<b>prior period errors</b>	Omissions from, or misstatements in, the <i>water report entity's general purpose water accounting report</i> for one or more prior <i>reporting periods</i> arising from a failure to use, or misuse of, reliable information that: <ul style="list-style-type: none"> <li>a) was available when <i>general purpose water accounting reports</i> for those <i>reporting periods</i> were issued; and</li> <li>b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those <i>general purpose water accounting reports</i>.</li> </ul>
<b>reporting date</b>	The end of the last day of the <i>reporting period</i> .
<b>reporting period</b>	The period for which a <i>water accounting report</i> is prepared.
<b>special purpose water accounting report</b>	A <i>water accounting report</i> tailored to the information needs of a user able to command this information.
<b>water</b>	The liquid that descends from clouds as rain and forms streams, lakes, <i>groundwater</i> aquifers and seas. Water is a chemical compound comprising two atoms of hydrogen and one atom of oxygen. Water may exist in solid, liquid or gaseous form.
<b>water accounting policies</b>	The specific principles, bases, conventions, rules and practices applied in the preparation and presentation of <i>water accounting reports</i> .
<b>water accounting report</b>	May be either a <i>general purpose water accounting report</i> or a <i>special purpose water accounting report</i> .
<b>water accounting statements</b>	Comprise the Statement of Water Assets and Water Liabilities, the Statement of Changes in Water Assets and Water Liabilities, and the Statement of Physical Water Flows.
<b>water asset</b>	<i>Water</i> , or the rights or other claims to <i>water</i> , which the <i>water report entity</i> either holds, or for which the <i>water report entity</i> has management responsibilities, and from which an individual or organisation that is a <i>water report entity</i> , or a group of stakeholders of a physical <i>water report entity</i> , derives future benefits.

<b>water entity</b>	A physical entity, an organisation or individual, that: <ul style="list-style-type: none"> <li>a) holds or transfers <i>water</i>;</li> <li>b) holds or transfers rights or other direct or indirect claims to <i>water</i>;</li> <li>c) has inflows and/or outflows of <i>water</i>; or</li> <li>d) has responsibilities relating to the management of <i>water</i>.</li> </ul>
<b>water liability</b>	A present obligation of the <i>water report entity</i> , the discharge of which is expected to result in a decrease in the <i>water report entity's water assets</i> or an increase in another <i>water liability</i> .
<b>water report entity</b>	A <i>water entity</i> in respect of which it is reasonable to expect the existence of users who depend on <i>general purpose water accounting reports</i> for information about <i>water</i> , or rights or other claims to <i>water</i> , which will be useful to them for making and evaluating decisions about the allocation of resources.
<b>water storage</b>	The total <i>water</i> in <i>water assets</i> .

**Approval by the Water Accounting Standards Board of the Exposure  
Draft of Australian Water Accounting Standard 1  
Preparation and Presentation of General Purpose Water Accounting Reports  
(ED AWAS 1)**

The Exposure Draft of Australian Water Accounting Standard 1  
*Preparation and Presentation of General Purpose Water Accounting Reports* was approved  
by the 5 members of the Water Accounting Standards Board on 9 June 2010.

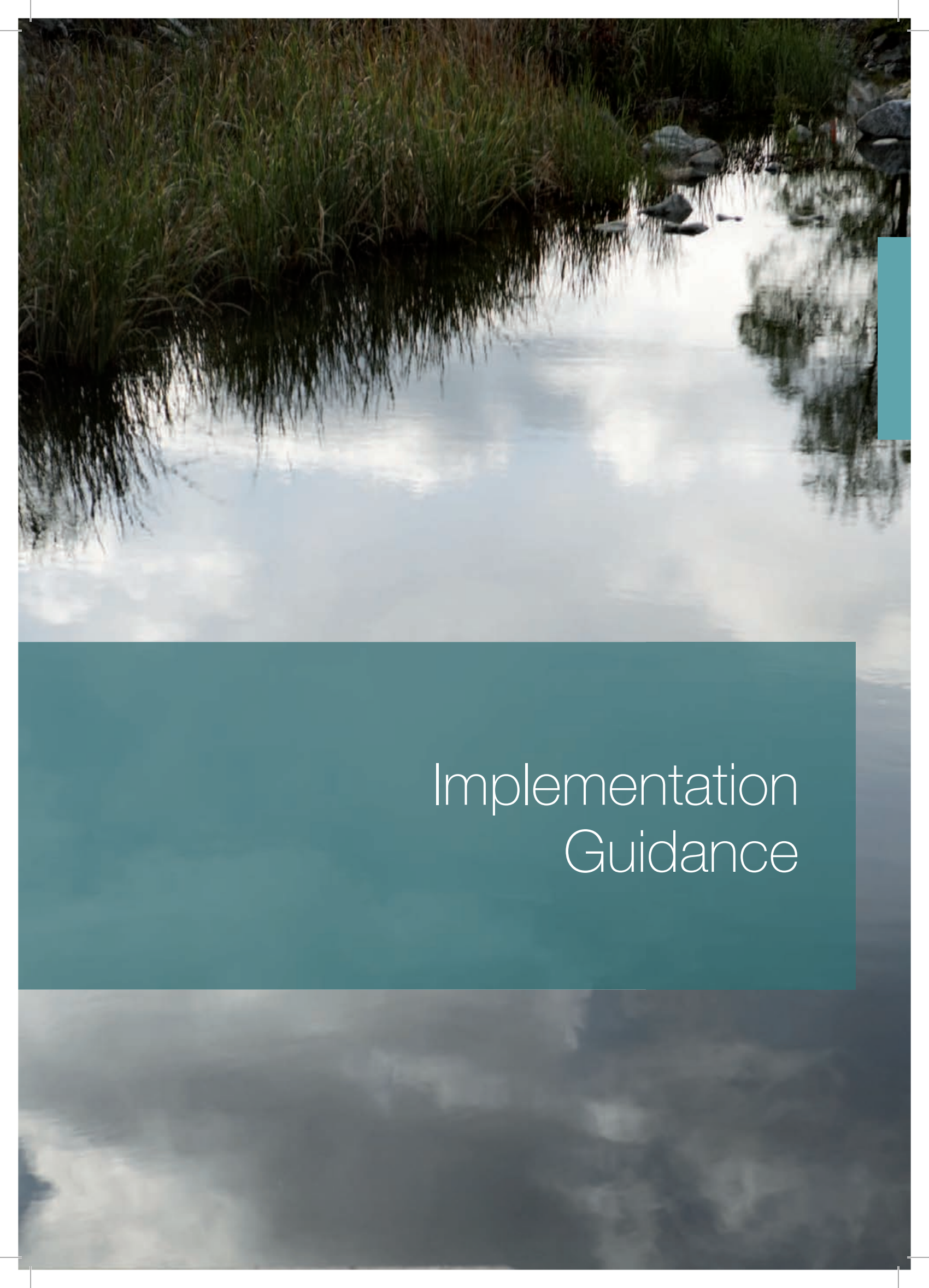
Michael RL Smith (*Chairman*)

W Peter Day

Denis W Flett

Jayne M Godfrey

Thomas L Vanderbyl

The image features a serene landscape of a stream flowing through tall, green grasses. The water is calm, reflecting the sky and the surrounding vegetation. In the foreground, a solid teal rectangular overlay covers the bottom portion of the image. The title 'Implementation Guidance' is centered within this teal area in a white, sans-serif font. The overall composition is peaceful and naturalistic.

# Implementation Guidance



# Contents

*This implementation guidance accompanies, but is not part of, the ED AWAS 1.*

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## A. Implementation guidance on water accounting statements

The ED AWAS 1 sets out the components of general purpose water accounting reports and minimum requirements for presentation in the water accounting statements. It also prescribes further items to be presented in the water accounting statements or disclosed in the notes. This guidance provides examples of ways in which the requirements of the ED AWAS 1 for the presentation of water accounting statements might be met.

The examples are not intended to illustrate all aspects of the ED AWAS 1, nor do they constitute a complete general purpose water accounting report, which would also include a Contextual Statement, an Accountability Statement, an Assurance Statement, a summary of significant water accounting policies and other explanatory information.

### Statement of Water Assets and Water Liabilities for Testcorp as at 30 June 20X9

	Note	20X9 ML	20X8 ML
<b>WATER ASSETS</b>			
<b>Surface water assets</b>			
Catchment and unregulated storage		455 000	325 000
Regulated river storage		1 650 000	1 550 000
Utility network storage		70 000	50 000
<b>Total surface water assets</b>		<b>2 175 000</b>	<b>1 925 000</b>
<b>Groundwater assets</b>			
Groundwater storage		255 000	250 000
<b>Total groundwater assets</b>		<b>255 000</b>	<b>250 000</b>
<b>Other water assets</b>			
Claims to water: intervalley		30 000	30 000
<b>TOTAL WATER ASSETS</b>	<b>2</b>	<b>2 460 000</b>	<b>2 205 000</b>
<b>WATER LIABILITIES</b>			
Allocation carryover		150 000	100 000
Other water liabilities		30 000	30 000
<b>TOTAL WATER LIABILITIES</b>		<b>180 000</b>	<b>130 000</b>
<b>NET WATER ASSETS</b>		<b>2 280 000</b>	<b>2 075 000</b>
Net water assets at beginning of reporting period		2 075 000	2 600 000
Change in net water assets	<b>1</b>	<b>205 000</b>	<b>(525 000)</b>
<b>NET WATER ASSETS</b>		<b>2 280 000</b>	<b>2 075 000</b>

**Statement of Changes in Water Assets and  
Water Liabilities for Testcorp  
for the year ended 30 June 20X9**

	Note	20X9 ML	20X8 ML
<b>Changes in water assets</b>			
Water asset increases		1 425 000	660 000
Water asset decreases		1 170 000	1 135 000
<b>Net change in water assets</b>		<u>255 000</u>	<u>(475 000)</u>
<b>Changes in water liabilities</b>			
Water liability increases		180 000	180 000
Water liability decreases		130 000	130 000
<b>Net change in water liabilities</b>		<u>50 000</u>	<u>50 000</u>
<b>Change in net water assets</b>	1	<u>205 000</u>	<u>(525 000)</u>

**Statement of Physical Water Flows for Testcorp  
for the year ended 30 June 20X9**

	Note	20X9 ML	20X8 ML
<b>Water inflows</b>			
Surface water inflows		1 500 000	800 000
Groundwater inflows		55 000	20 000
<b>Net surface water flows</b>		<u>1 555 000</u>	<u>820 000</u>
<b>Water outflows</b>			
Surface water outflows		1 250 000	1 150 000
Groundwater outflows		50 000	65 000
<b>Net groundwater flows</b>		<u>1 300 000</u>	<u>1 215 000</u>
<b>Net change in water storage</b>	1	255 000	(395 000)
<b>Opening water storage</b>		<u>2 175 000</u>	<u>2 570 000</u>
<b>Closing water storage</b>	2	<u>2 430 000</u>	<u>2 175 000</u>

**Note 1: Reconciliation of Net Change in Water Storage  
to Change in Net Water Assets**

	20X9 ML	20X8 ML
<b>Change in net water assets</b>	<b>205 000</b>	<b>(525 000)</b>
Adjustments for:		
(Decrease)/increase in accruals		
Allocation carryover	50 000	100 000
Claims to water: intervalley	0	30 000
	<u>50 000</u>	<u>130 000</u>
<b>Net change in water storage</b>	<b><u>255 000</u></b>	<b><u>(395 000)</u></b>

**Note 2: Reconciliation of Closing Water Storage to  
Total Water Assets**

	20X9 ML	20X8 ML
<b>Closing water storage</b>	<b>2 430 000</b>	<b>2 175 000</b>
Comprises:		
Surface water assets	2 175 000	1 925 000
Groundwater assets	255 000	250 000
	<u>2 430 000</u>	<u>2 175 000</u>
Other water assets	30 000	30 000
<b>Total water assets</b>	<b><u>2 460 000</u></b>	<b><u>2 205 000</u></b>

## B. Implementation guidance on future prospects

The ED AWAS 1 (paragraphs 140-146) requires information to be disclosed in the notes that assists users to understand the future prospects of the water report entity. This implementation guidance demonstrates how the information required by the ED AWAS 1 may be presented in the notes.

### Illustrative example 1: Future prospects

In the following table, the volumes disclosed for future commitments and expected inflows are based on the following assumptions:

- Dry: Lowest allocation/inflow from the previous 20 years
- Median: Median allocation/inflow from the previous 20 years.

<b>Climatic conditions</b>	<b>Dry</b>	<b>Median</b>	<b>Wet</b>
	ML	ML	ML
<b>Total water assets as at 30 June 2X10</b>	15 000	15 000	15 000
<b>Less water assets not available to be accessed and taken or delivered</b>			
Dead storage	(3 000)	(3 000)	(3 000)
Conveyance water	(500)	(500)	(500)
	<b>11 500</b>	<b>11 500</b>	<b>11 500</b>
<b>Less total water liabilities as at 30 June 2X10</b>	(700)	(700)	(700)
	<b>10 800</b>	<b>10 800</b>	<b>10 800</b>
<b>Less future commitments expected to be settled within 12 months of the reporting date</b>			
Expected diversion of high security allocation	(10 000)	(10 000)	(10 000)
Expected diversion of general security allocation	(20 000)	(40 000)	(80 000)
Expected diversion of unregulated entitlements	(1 200)	(8 500)	(23 000)
<b>Surplus/(deficit) of available water assets over water liabilities and future commitments expected to be settled within 12 months of the reporting date</b>	<b>(20 400)</b>	<b>(47 700)</b>	<b>(102 200)</b>
<b>Add expected inflows within 12 months of the reporting date</b>			
Inflow of runoff	8 000	40 000	100 000
Inflow from external water report entity	5 000	10 000	10 000
Other inflows (net of evaporation)	0	1 500	8 000
	<b>(7 400)</b>	<b>3 800</b>	<b>15 800</b>
<b>Add future water rights expected to be realised within 12 months of the reporting date</b>			
Expected purchase of water rights from external water report entities	6 000	2 000	0
<b>Surplus/(deficit) of available water assets, expected future inflows and future water rights over water liabilities and future commitments within 12 months of the reporting date</b>	<b>(1 400)</b>	<b>5 800</b>	<b>15 800</b>

- Wet: Highest allocation/inflow from the previous 20 years

## Illustrative example 2: Future prospects

<b>Total water assets as at 30 June 2X10</b>	12 500
<b>Less water assets not available to be accessed, taken or delivered</b>	
Dead storage	(6 000)
Conveyance water	(1 000)
	<b>5 500</b>
<b>Less total water liabilities as at 30 June 2X10</b>	(250)
	<b>5 250</b>
<b>Less future commitments expected to be settled within 12 months of the reporting date</b>	
Environmental diversion to wetland	(10 000)
Ongoing water commitment	(14 000)
<b>Surplus/(deficit) of available water assets over water liabilities and future commitments expected to be settled within 12 months of the reporting date</b>	<b>(18 750)</b>

The deficit of available water assets over water liabilities and future commitments will be met with future inflows and future rights. Based on historical data, future inflows to the water report entity are likely to be between 18 000 and 103 000 ML, with median inflows being 61 500 ML. Future water rights include an ongoing right to receive 18 000 ML from an upstream water report entity. In the past, this volume has been reduced to 3 000 ML following the suspension of the water sharing plan due to dry climatic conditions.

## C. Implementation guidance on accrual accounting

The ED AWAS 1 (paragraphs 13-14) requires general purpose water accounting reports to be prepared using the accrual basis of accounting. This guidance provides examples of the application of the accrual basis of accounting to water accounting. Note, the water accounting entries provided in the illustrative examples below indicate whether the entry has an impact on either the Statement of Water Assets and Water Liabilities (SWAWL) or the Statement of Changes in Water Assets and Water Liabilities (SCWAWL)

### Illustrative example 1: Water allocation announcement and subsequent delivery of water to settle the water allocation carryover

Fact pattern:

- DiMichiel Water comprises regulated rivers and water storages
- DiMichiel Water is subject to a water sharing plan and makes two-year water allocation determinations
- Allan Water is downstream of DiMichiel Water and is a water entitlement holder
- As at 1 July 20X1, the beginning of the water reporting period, DiMichiel Water and Allan Water have the following water assets and water liabilities

Statement of Water Assets and Water Liabilities as at 1 July 20X1

	DiMichiel Water	Allan Water
<b>Water assets</b>	5 000	1 000
<b>Water liabilities</b>		
Allocation carryover	0	0
<b>Net water assets</b>	5 000	1 000

- On 10 July 20X1 DiMichiel Water announces its two-year water allocation for Allan Water – 1 400 ML for the year ending 30 June 20X2 and 1 400 ML for the year ending 30 June 20X3, subject to the availability of water in a particular year
- During the annual water reporting period ending 30 June 20X2, Allan Water takes 1 300 ML of its 20X1/X2 water allocation. The 100 ML of undelivered water is carried over into the next water reporting period (i.e. 20X2/X3).

The following water accounting entries would be recorded for the annual water reporting period ending 30 June 20X2:

DiMichiel Water			
Date		Debit	Credit
10 July 20X1	Water liability increase – allocation announcement (SCWAWL)	1 400	
	Water liability – allocation carryover (SWAWL)		1 400
	<i>Record allocation carryover water liability for the first-year allocation (20X1/X2) at the time of the allocation announcement.<sup>a</sup></i>		
July 20X1 – June 20X2	Water liability – allocation carryover (SWAWL)	1 300	
	Water asset (SWAWL)		1 300
	<i>Record physical flow of water to settle the allocation carryover water liability.</i>		

Allan Water			
Date		Debit	Credit
10 July 20X1	Water asset – claim to water (SWAWL)	1 400	
	Water asset increase – increase in claims to water (SCWAWL)		1 400
	<i>Record claim to water for the first-year allocation (20X1/X2) at time of the allocation announcement.<sup>b</sup></i>		
July 20X1 – June 20X2	Water asset (SWAWL)	1 300	
	Water asset – claim to water (SWAWL)		1 300
	<i>Record physical flow of water by reducing claim to water and increasing surface water asset.</i>		

Notes:

- a) It is only the allocation for the first year (20X1/X2) that represents a present obligation and is therefore recognised as a water liability. The allocation for the second year (20X2/X3) represents a future water commitment. It would be recognised as a water liability at the beginning of 20X2/X3 to the extent that there is water available to be taken or delivered
- b) Consistent with Note a. above, it is only the allocation for the first year (20X1/X2) that represents a water asset. The allocation for the second year (20X2/X3) represents a contingent water asset (i.e. contingent on there being water available to be taken/delivered in 20X2/X3).

Assuming no other transactions for either entity, the water accounting statements for DiMichiel Water and Allan Water would be as follows:

**Statement of Water Assets and Water Liabilities as at 30 June 20X2**

	DiMichiel Water	Allan Water
<b>Water assets</b>		
Water asset	3 700	2 300
Other water asset		100
<b>Water liabilities</b>		
Allocation carryover	(100)	0
<b>Net water assets</b>	<b>3 600</b>	<b>2 400</b>

**Statement of Changes in Water Assets and Water Liabilities for the year ended 30 June 20X2**

	DiMichiel Water	Allan Water
<b>Water asset increases</b>		
Other water asset increases		1 400
<b>Water asset decreases</b>		
Water decreases	(1 400)	0
<b>Change in net water assets</b>	<b>(1 400)</b>	<b>1 400</b>

**Statement of Physical Water Flows for the year ended 30 June 20X2**

	DiMichiel Water	Allan Water
<b>Water flows</b>		
Water inflows		1 300
Water outflows	(1 300)	
<b>Net change in water storage</b>	<b>(1 300)</b>	<b>1 300</b>
<b>Opening water storage</b>	<b>5 000</b>	<b>1 000</b>
<b>Closing water storage</b>	<b>3 700</b>	<b>2 300</b>

**Illustrative example 2: Two-year water allocation announcement and portion of second year allocation taken/delivered in first year (i.e. water received in advance)**

Fact pattern:

- Assume the same fact pattern as in illustrative example 1 above, except that during the annual water reporting period ending 30 June 20X2, Allan Water takes its first year allocation in full (i.e. 1 400 ML). In addition, on 31 May 20X2 Allan Water requests that 300 ML of its second year allocation be delivered in advance. DiMichiel Water accepts this request and delivers the water during June 20X2.

The following water accounting entries would be recorded for the annual water reporting period ending on 30 June 20X2:

Date	DiMichiel Water	Debit	Credit
10 July 20X1	Water liability increase – allocation announcement (SCWAWL)	1 400	
	Water liability – allocation carryover (SWAWL)		1 400
	<i>Record allocation carryover water liability for the first-year allocation (20X1/X2) at the time of the allocation announcement.</i>		
July 20X1 - May 20X2	Water liability – allocation carryover (SWAWL)	1 400	
	Water asset (SWAWL)		1 400
	<i>Record physical flow of water to settle the first-year allocation carryover water liability.</i>		
June 20X2	Water asset - water delivered in advance (SWAWL)	300	
	Water asset (SWAWL)		300
	<i>Record physical flow of second-year water allocation delivered in advance.<sup>a</sup></i>		

Date	Allan Water	Debit	Credit
10 July 20X1	Water asset – claim to water (SWAWL)	1 400	
	Water asset increase – increase in claims to water (SCWAWL)		1 400
	<i>Record claim to water for the first-year allocation (20X1/X2) at time of the allocation announcement.</i>		
July 20X1 - May 20X2	Water asset (SWAWL)	1 400	
	Water asset – claim to water (SWAWL)		1 400
	<i>Record physical flow of water by reducing claim to water and increasing surface water asset.</i>		
June 20X2	Water asset (SWAWL)	300	
	Water liability – water received in advance (SWAWL)		300
	<i>Record physical flow of second-year water allocation received in advance.<sup>b</sup></i>		

Notes:

- a) 'Water delivered in advance' represents a water asset. The water that has been delivered relates to an allocation of water for a future reporting period. The advance delivery effectively results in DiMichiel Water having to deliver less water in the future reporting period and therefore represents a future benefit. The water asset will be de-recognised via the Statement of Changes in Water Assets and Water Liabilities in the future reporting period to which the water relates (i.e. the 20X2/X3 water reporting period)
- b) 'Water received in advance' represents a water liability. The water that has been received relates to an allocation of water for a future reporting period. The advance delivery effectively results in Allan Water being entitled to less water in the future reporting period. The water liability will be de-recognised via the Statement of Changes in Water Assets and Water Liabilities in the future reporting period to which the water relates (i.e. the 20X2/X3 water reporting period).

Assuming no other transactions for either entity, the water accounting statements for DiMichiel Water and Allan Water would be as follows:

**Statement of Water Assets and Water Liabilities as at 30 June 20X2**

	DiMichiel Water		Allan Water
<b>Water asset</b>	3 300		2 700
Other water asset	300		
<b>Water liabilities</b>			
Water received in advance			(300)
<b>Net water assets</b>	3 600		2 400

**Statement of Changes in Water Assets and Water Liabilities for the year ending 30 June 20X2**

	DiMichiel Water		Allan Water
<b>Water asset increases</b>			
Other water asset increases			1 400
<b>Water asset decreases</b>			
Water decreases	(1 400)		0
<b>Change in net water assets</b>	(1 400)		1 400

**Statement of Physical Water Flows for the year ending 30 June 20X2**

	DiMichiel Water		Allan Water
<b>Water flows</b>			
Water inflows			1 700
Water outflows	(1 700)		
<b>Net change in water storage</b>	(1 700)		1 700
<b>Opening water storage</b>	5 000		1 000
<b>Closing water storage</b>	3 300		2 700

*Note:*

- a) The 300 ML of water that has been delivered or received in advance relates to an allocation of water for a future reporting period. Accordingly, it is recognised in the period of delivery/receipt as a water asset/water liability in the accounts of DiMichiel Water and Allan Water respectively. The water asset/water liability will be de-recognised via the Statement of Changes in Water Assets and Water Liabilities in the future reporting period to which the water relates (i.e. the 20X2/X3 water reporting period). Accordingly, the Statement of Changes in Water Assets and Water Liabilities for the year ended 30 June 20X2 does not include this water in advance. However, because it represents a physical water flow, it is included in the Statement of Physical Water Flows for the year ended 30 June 20X2.

Assuming DiMichiel Water delivers 1 100 ML of water during 20X2/X3, the following water accounting entries would be recorded for the annual water reporting period ending 30 June 20X3:

Date		DiMichiel Water	
		Debit	Credit
1 July 20X2	Water liability increase – allocation announcement (SCWAWL)	1 400	
	Water liability – allocation carryover (SWAWL)		1 100
	Water asset – water delivered in advance (SWAWL)		300
	<i>Record allocation carryover water liability for the second-year allocation (20X2/X3) and de-recognise the water delivered in advance.</i>		
July 20X2 – June 20X3	Water liability – allocation carryover (SWAWL)	1 100	
	Water asset (SWAWL)		1 100
	<i>Record physical flow of water to settle the second-year allocation carryover water liability.</i>		

Date		Allan Water	
		Debit	Credit
1 July 20X2	Water asset – claim to water (SWAWL)	1 100	
	Water liability – water received in advance (SWAWL)	300	
	Water asset increase – increase in claims to water (SCWAWL)		1 400
	<i>Record claim to water for the second-year allocation (20X2/X3) and de-recognise the water received in advance.</i>		
July 20X2 – June 20X3	Water asset (SWAWL)	1 100	
	Water asset – claim to water (SWAWL)		1 100
	<i>Record physical flow of water by reducing claim to water and increasing surface water asset.</i>		

Assuming no other transactions for either entity, the water accounting statements for DiMichiel Water and Allan Water would be as follows:

**Statement of Water Assets and Water Liabilities as at 30 June 20X3**

	DiMichiel Water		Allan Water
<b>Water asset</b>	2 200		3 800
Other water asset			
<b>Water liabilities</b>			
Water received in advance			
<b>Net water assets</b>	2 200		3 800

**Statement of Changes in Water Assets and Water Liabilities for the year ending 30 June 20X3**

	DiMichiel Water		Allan Water
<b>Water asset increases</b>			
Other water asset increases			1 400
<b>Water asset decreases</b>			
Water decreases	(1 400)		0
<b>Change in net water assets</b>	(1 400)		1 400

**Statement of Physical Water Flows for the year ending 30 June 20X3**

	DiMichiel Water		Allan Water
<b>Water flows</b>			
Water inflows			1 100
Water outflows	(1 100)		
<b>Net change in water storage</b>	(1 100)		1 100
<b>Opening water storage</b>	3 300		2 700
<b>Closing water storage</b>	2 200		3 800

## D: Implementation guidance on water assets

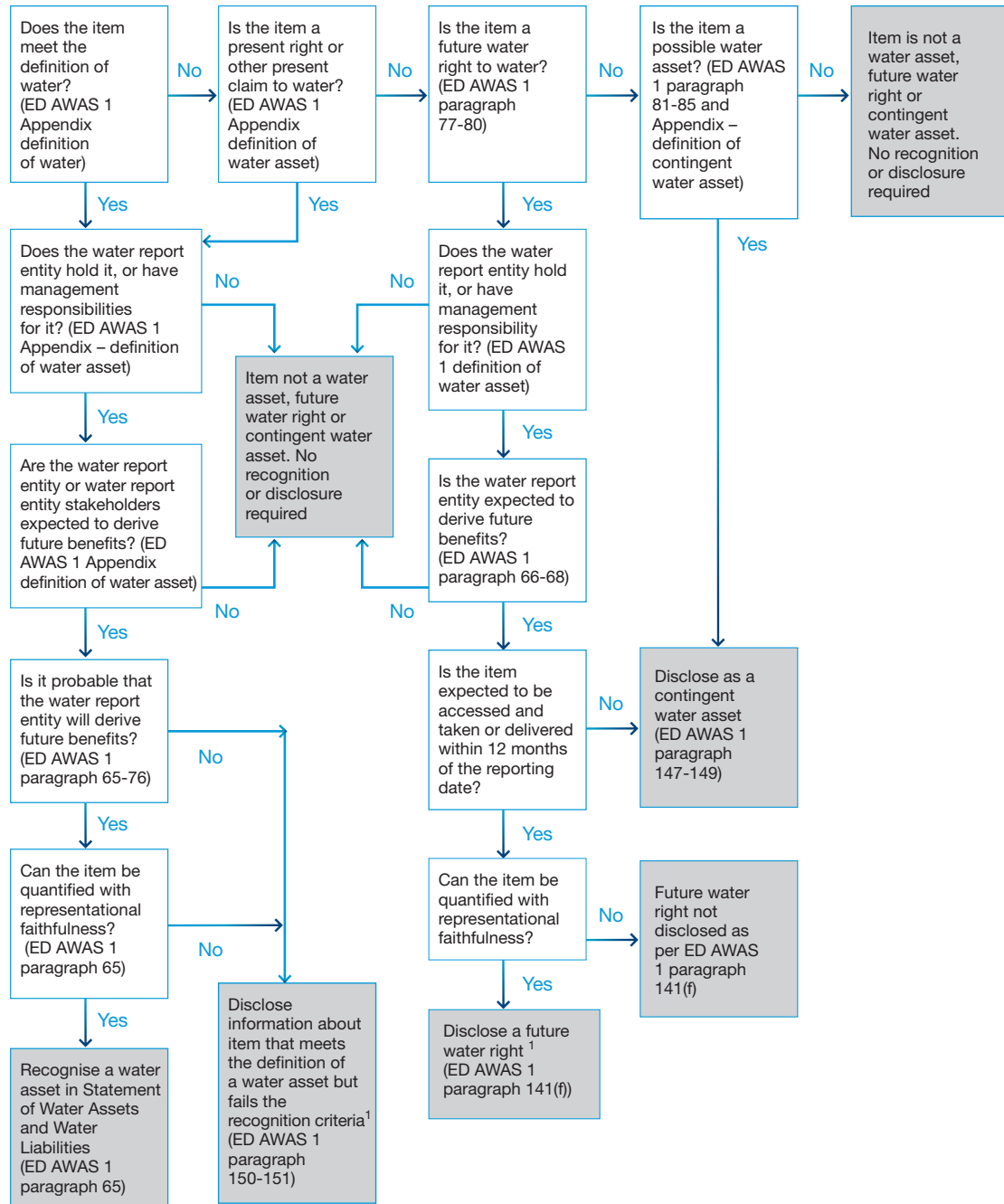
The following examples illustrate the application of the definition of, and recognition criteria for, a water asset.

For an item to meet the definition of a water asset and be recognised in the Statement of Water Assets and Water Liabilities, it must satisfy the following criteria:

- a) it is water, or the present right or other present claim to water;
- b) the water report entity either holds, or has management responsibilities over it;
- c) it is probable (more likely than not) that the individual or organisation that is a water report entity, or a group of stakeholders of a physical water report entity, will derive future benefits; and
- d) the item's volume can be quantified with representational faithfulness.

## Water assets, future water rights and contingent water assets

The following is a diagrammatic representation of the steps necessary to determine whether an item is a water asset, future water right or contingent water asset.



<sup>1</sup> The item may also qualify as a contingent water asset.

### Illustrative example 1: Sea water in terrestrial phase

Desal Limited (Desal) is a water report entity. It operates a desalination plant off the east coast of Australia. Desal has a licence to draw up to 1 000 000 ML of sea water from the ocean per year to convert into fresh water. Before the seawater from the ocean is pumped through the plant and converted to fresh water, it first flows into water storages constructed by Desal. These storages separate the sea water that Desal will use in the desalination plant from sea water in the ocean. The sea water in the storages is pumped through the Desal plant in accordance with Desal's production schedule to produce fresh water. The fresh water produced is sold to the nearby communities at a regulated price.

#### **Does the item (sea water) meet the definition of water? – Yes**

Sea water meets the definition of water.

The licence to draw up to 1 000 000 ML of sea water from the ocean (i.e. sea water in marine phase) represents a right to water.

#### **Does the water report entity hold it, or have management responsibilities for it? – Yes**

Sea water in the marine phase is outside the scope of the ED AWAS 1 – **No**

However, the sea water in the storages is considered sea water in terrestrial phase. Desal has management responsibility or holds the sea water in the storages – **Yes**

#### **Is it probable that the water report entity or the water report entity stakeholders will derive future benefits? – Yes**

Desal derives future economic benefit by selling the fresh water extracted from the sea water in terrestrial phase to surrounding communities.

#### **Conclusion**

The sea water in terrestrial phase satisfies each element of the water asset definition and the recognition criterion that it is probable that Desal will derive future benefits from it. To the extent that Desal is able to quantify the volume of sea water in terrestrial phase with representational faithfulness, Desal recognises it in the Statement of Water Assets and Water Liabilities.

Note: Because the licence held by Desal is to draw up to 1 000 000 ML of sea water in the marine phase, the right does not meet the definition of a water asset and is not recognised in the Statement of Water Assets and Water Liabilities. Sea water in the marine phase before it is stored in the terrestrial phase or any rights to such water cannot meet the definition of a water asset since it is defined to be outside the scope of the ED AWAS 1.

## Illustrative example 2: Sewage

Kenny Pty Ltd (Kenny) is a company owned and managed by the local council that is responsible for treating sewage. Kenny uses the treated sewage to irrigate local parks and maintain local recreational areas. Kenny does not receive any monetary benefit from treating the sewage and making it fit for use by the council. The treatment of the sewage achieves environmental and social benefit. Irrigation of the local parks and maintaining the local recreational areas ensures the survival of the local flora and fauna. As a result, the local area is a popular tourist destination for nature lovers.

The local council is a water report entity preparing a general purpose water accounting report.

### **Does the item (sewage) meet the definition of water? – Yes**

Sewage is made up of water and other wastes, in either solution or suspension. Sewage meets the definition of water.

### **Does the water report entity hold it, or have management responsibilities for it? – Yes**

The local council, through Kenny, has management responsibility for the sewage that it receives from surrounding communities. The sewage is 'held' when it is stored in treatment ponds while it is being treated.

### **Is it probable that the water report entity or the water report entity stakeholders will derive future benefits? – Yes**

The local council derives environmental and social benefits from the treated sewage. The environmental benefits are derived from maintaining the local flora and fauna. The social benefits are derived from providing an aesthetic getaway for nature-lovers.

### **Conclusion**

Sewage held by the council in the sewage treatment ponds is capable of satisfying each element of the water asset definition for the local council. To the extent that the local council is able to quantify the volume of the sewage with representational faithfulness, it recognises sewage in its Statement of Water Assets and Water Liabilities.

### Illustrative example 3: Water in pipes

RETAW Limited (RETAW) is an urban water utility company that provides water to residents using its vast network of pipes.

RETAW is a water report entity and is preparing a general purpose water accounting report.

#### **Does the item (water in pipes) meet the definition of water? – Yes**

The water in the pipes meets the definition of water.

#### **Does the water report entity hold it, or have management responsibilities for it? – Yes**

RETAW has the management responsibility for the water in its pipes.

#### **Is it probable the water report entity or the water report entity stakeholders will derive future benefits? – Yes**

The water in the pipes provides future benefits because it enables the delivery of water to residents. RETAW derives future economic benefit from the water in the pipes.

#### **Conclusion**

Water in pipes is capable of satisfying each element of the water asset definition. To the extent that RETAW is able to quantify the volume of water in pipes with representational faithfulness, it recognises water in pipes in the Statement of Water Assets and Water Liabilities.

#### Illustrative example 4: Water in tailing dams

Gold Limited (Gold) is a gold mining company. It has recently identified a rich deposit of gold that is located under an aquifer. By law, gold mining companies are required to maintain tailing dams to capture or store all contaminated water from mining operations. As it is difficult to reduce the harmful effects of the contaminated water, Gold does not treat it or use it for any other purpose. It holds the contaminated water in the tailing dams indefinitely to facilitate evaporation.

Gold is a water report entity and is required to prepare a general purpose water accounting report.

#### **Does the item (water in tailing dams) meet the definition of water? – Yes**

The contaminated water in the tailing dams meets the definition of water.

#### **Does the water report entity hold it, or have management responsibilities for it? – Yes**

Gold has management responsibility for the contaminated water in the tailing dams (e.g. to ensure that it does not leak/seep into the environment and pollute local river systems).

#### **Is it probable the water report entity or the water report entity stakeholders will derive future benefits? – No**

As the contaminated water in the tailing dams is not likely to be treated and used for another purpose, Gold would not derive a future benefit from the contaminated water in the tailing dams.

#### **Conclusion**

Because Gold does not derive a future benefit from the contaminated water in the tailing dams, the contaminated water does not meet the definition of a water asset for Gold. Accordingly, the contaminated water is not recognised in the Statement of Water Assets and Water Liabilities.

#### **Variation to the fact pattern**

If Gold could purify or treat the contaminated water to remove the heavy metals and use it for other purposes, such as in its mining operations, a future benefit would be derived. The contaminated water would then meet the definition of a water asset. To the extent that Gold is able to quantify the volume of the contaminated water with representational faithfulness, it recognises the contaminated water in the Statement of Water Assets and Water Liabilities.

Note: Some have suggested that the contaminated water in tailing dams would also provide future environmental benefit to the extent that the tailing dams prevent the contaminated water from polluting surrounding water resources. However, this environmental benefit is derived from the dam wall or infrastructure rather than the contaminated water in the tailing dams.

## Illustrative example 5: Soil moisture

### 5.1. Farm Irrigator

Farm Irrigator is a water report entity. It is a large-scale grower of exotica roses. Exotica roses are difficult to grow, as they require optimal levels of soil moisture throughout their 180-day lifecycle from planting to harvest. Farm Irrigator, using highly sophisticated techniques, closely monitors soil moisture to ensure that it is kept ideal for growing exotica roses. Farm Irrigator irrigates the farm using water purchased from the nearby water authority.

Farm Irrigator prepares general purpose water accounting reports. Farm Irrigator believes that soil moisture is relevant to an understanding of its water resources and therefore assesses whether soil moisture can be included in the Statement of Water Assets and Water Liabilities as follows:

#### **Does the item (soil moisture) meet the definition of water? – Yes**

Soil moisture meets the definition of water.

#### **Does the water report entity hold it, or have management responsibilities for it? – Yes**

Farm Irrigator owns the land in which the soil moisture is held. Farm Irrigator has management responsibility over the soil moisture as it has to monitor and maintain the soil moisture at a specified level.

#### **Is it probable the water report entity or water report entity stakeholders will derive future benefits? – Yes**

Farm Irrigator maintains soil moisture at specific levels so that it can grow exotica roses that are sold to the market for a profit. Farm Irrigator derives economic benefit from maintaining soil moisture.

#### **Conclusion**

To the extent that Farm Irrigator is able to quantify the volume of soil moisture with representational faithfulness, it recognises soil moisture in the Statement of Water Assets and Water Liabilities.

## 5.2. Lake Yarra

*This example considers the situation where soil moisture is not considered to be material for the purpose of preparing a general purpose water accounting report.*

Lake Yarra and the surrounding catchment is a physical water report entity for which a general purpose water accounting report is prepared. The catchment incorporates the land and the soil moisture over which Farm Irrigator has management responsibilities.

### **Does the item (soil moisture) meet the definition of water? – Yes**

Soil moisture meets the definition of water.

### **Does the water report entity hold it, or have management responsibilities for it? – Yes**

The physical water report entity includes the land that holds the soil moisture.

### **Is it probable the water report entity or the water report entity stakeholders will derive future benefits? – Yes**

The stakeholders in Lake Yarra derive benefit from increased runoff that occurs due to the soil moisture.

### **Conclusion**

The soil moisture meets the definition of a water asset for Lake Yarra. However, the preparer of the general purpose water accounting report has elected not to include soil moisture as a water asset because it is immaterial. Hence, its omission is not considered to give rise to a material misstatement.

## 5.3. Moonwater

*This example illustrates the analysis of soil moisture where the scope of the water report entity is limited to the water courses and water storages in the catchment and not the catchment as a whole.*

Moonwater is a water report entity that has management responsibility for the Hado Basin. The management responsibility is only for the rivers and tributaries in the Hado Basin. Moonwater does not have management responsibility for the catchment area.

### **Does the item (soil moisture) meet the definition of water? – Yes**

Soil moisture meets the definition of water.

### **Does the water report entity hold it, or have management responsibilities for it? – No**

Moonwater does not have management responsibility for the soil moisture in the catchment area.

### **Is it probable the water report entity or the water report entity stakeholders will derive future benefits? – *Not relevant because the second criterion is not satisfied***

### **Conclusion**

The soil moisture in the Hado Basin does not meet the definition of a water asset of Moonwater. Therefore, it is not recognised as a water asset in Moonwater's Statement of Water Assets and Water Liabilities.

## E. Implementation guidance on water liabilities

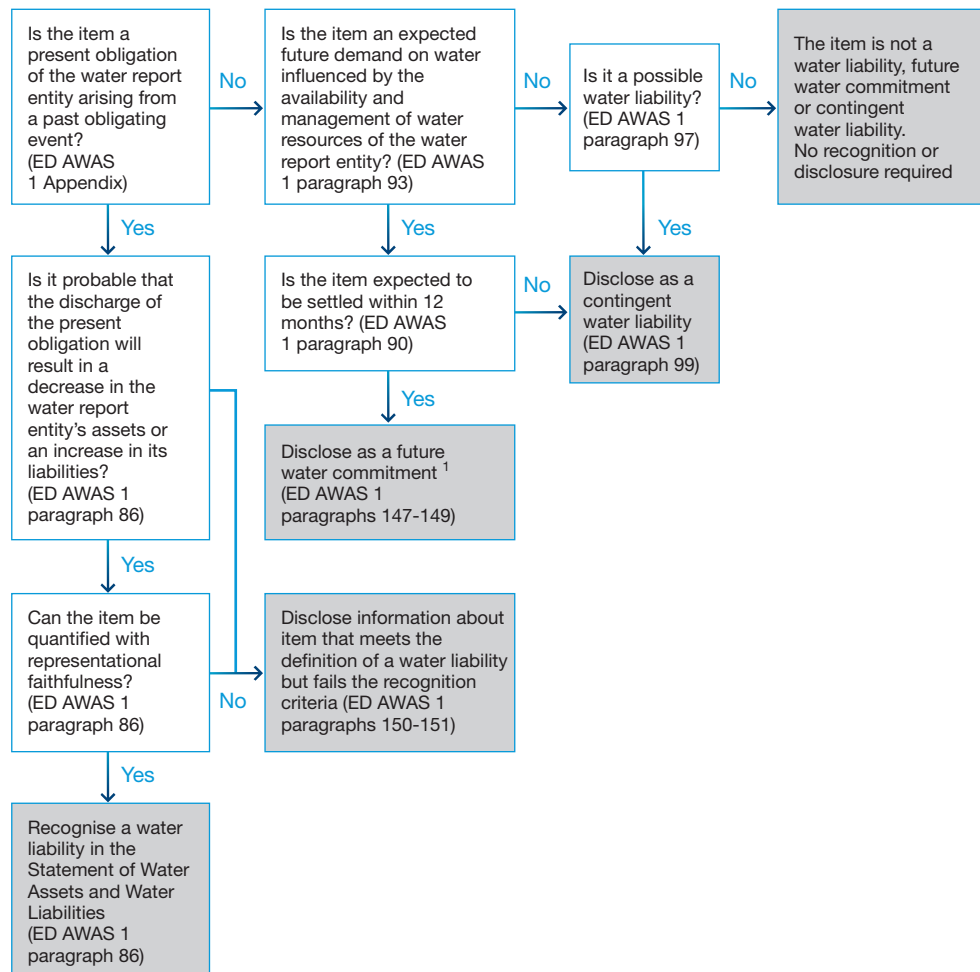
The following examples illustrate the application of the definition of, and recognition criteria for, a water liability.

For an item to meet the definition of a water liability and be recognised in the Statement of Water Assets and Water Liabilities as a water liability, it must satisfy the following criteria:

- it is a present obligation arising from a past obligating event;
- it is probable (more likely than not) that the discharge of the present obligation will result in a decrease in the water report entity's assets or an increase in its water liabilities; and
- the water report entity must be able to quantify the item's volume with representational faithfulness.

### Water liabilities, future water commitment and contingent water liabilities

The following is a diagrammatic representation of the steps necessary to determine whether an item is a water liability, future water commitment or contingent water liability.



<sup>1</sup> The item may also qualify as a contingent water liability.

### Illustrative example 1: Ongoing water commitments

Howe Reservoir is a water report entity. At the beginning of the current year, the management of Howe Reservoir granted Tys Mining Ltd (Tys) a licence to extract up to 6 000 000 ML of water for the next 20 years. The terms of the licence permits Tys to extract 1 200 ML of water per day up to a maximum of 300 000 ML per year. By the end of the year, Tys had extracted 255 000 ML. Tys is allowed to carry over the undelivered volume of water.

#### **Is the item (the ongoing water commitment) a present obligation of the water report entity arising from a past obligating event? – Yes**

The licence granted to Tys represents an obligating event. It allows Tys to extract up to 300 000 ML of water per year. The undelivered volume of 45 000 ML gives rise to a present obligation at the reporting date.

#### **Is it probable that the discharge of the present obligation will result in a decrease in the water report entity's assets or an increase in its liabilities? – Yes**

The discharge of the present obligation (being the delivery of water to Tys) will result in a decrease in the water assets of Howe Reservoir or an increase in the water liabilities of Howe Reservoir.

#### **Conclusion**

The 45 000 ML of undelivered water satisfies the definition of a water liability and the recognition criterion that it is probable that Howe Reservoir's discharge of the present obligation will result in a decrease in the water report entity's assets.

Therefore, to the extent that the management of Howe Reservoir is able to quantify the volume of the water liability with representational faithfulness, the 45 000 ML of undelivered water is recognised as a water liability in the Statement of Water Assets and Water Liabilities.

The management of Howe Reservoir would not recognise a water liability for the volume of water that Tys is able to extract each year under its licence. The requirement to deliver water in future reporting periods under the licence is not a present obligation.

The amount that the management of Howe Reservoir is obliged to deliver or make available to Tys in the next 12 months is disclosed as a future water commitment.

## Illustrative example 2: Two-year water allocation

Oliphant Reservoir is a water report entity. During the year, the management of Oliphant Reservoir announced a water allocation to Beveridge Enterprises (Beveridge). The allocation entitles Beveridge to draw 150 000 ML in the first year and 130 000 ML in the second year. Beveridge is not able to draw any part of the second year water allocation in the first year. At the end of the first year, Beveridge has drawn 105 000 ML of water. Beveridge is allowed to carry over the undelivered volume of water.

**Is the item (the claim in year 1 and the claim in year 2) a present obligation of the water report entity arising from an obligating event? – Yes: carry over from Year 1; No: Year 2 allocation**

The announcement of the allocation to Beveridge represents the past obligating event. It obliges the management of Oliphant Reservoir to deliver or make available to Beveridge 150 000 ML of water in the first year and 130 000 ML of water in the second year.

45 000 ML is the volume of water that the management of Oliphant Reservoir still has to make available to Beveridge at the end of the first year. The undelivered volume relating to the first year of 45 000 ML gives rise to a present obligation at the end of the first year.

At the end of the first year, there is no present obligation for the management of Oliphant Reservoir to deliver the second year allocation of 130 000 ML.

**Is it probable that the discharge of the present obligation will result in a decrease in the water report entity's assets or an increase in its liabilities? – Yes**

The discharge of the present obligation (being the delivery of water to Beveridge) will result in a decrease in the water assets of Oliphant Reservoir.

### Conclusion

The 45 000 ML of undelivered water satisfies the definition of a water liability and the recognition criterion that it is probable that Oliphant Reservoir's discharge of the present obligation will result in a decrease in the water report entity's assets.

Therefore, to the extent that the management of Oliphant Reservoir is able to quantify the volume of the water liability with representational faithfulness, the 45 000 ML of undelivered water is recognised as a water liability in the Statement of Water Assets and Water Liabilities.

The second year allocation of 130 000 ML does not represent undelivered water relating to the current or past reporting periods and would not be recognised in Oliphant Reservoir's Statement of Water Assets and Water Liabilities. It is a future water commitment that is expected to be settled within 12 months of the reporting date. Therefore, the management of Oliphant Reservoir would disclose it as a future water commitment in the notes to the general purpose water accounting report.

### Illustrative example 3: Water received in advance

Dearn Water (Dearn) and Eyers Irrigation (Eyers) are both water report entities. Dearn announced an allocation of 15 000 ML of water per annum to Eyers. Under the allocation, Eyers is permitted to request a portion of its future allocations in the current year from Dearn. Any water received in the current reporting period relating to future reporting period allocations (water received in advance) would be remedied by reducing the volume of water received in future reporting periods. In the current year, Eyers receives 25 000 ML of water that comprises 15 000 ML of water relating to the current year's allocation and 10 000 ML of water received in advance.

#### **Is the item (water received in advance) a present obligation of the water report entity arising from an obligating event? – Yes: Eyers; No: Dearn**

For Eyers, the obligating event arose when Eyers received water in advance. As at the reporting date, the water delivered in advance of 10 000 ML represents a present obligation as it will result in a reduction in the water received in future reporting periods.

For Dearn, the announcement of the allocation to Eyers represents the past obligating event. However, at the reporting date Dearn does not have any undelivered volumes relating to the current or past reporting periods that gives rise to a present obligation.

#### **Is it probable that the discharge of the present obligation will result in a decrease in the water report entity's assets or an increase in its liabilities? – Yes**

Eyers would effectively 'repay' the water received in advance by reducing the volume of water that it takes in future reporting periods.

#### **Conclusion**

Water received in advance represents a water liability of Eyers as it represents an allocation of water for a future reporting period that Eyers has received in the current or past reporting periods. As a result, Eyers would be entitled to a reduction in the water received in future reporting periods. To the extent that Eyers is able to quantify the volume of the water liability with representational faithfulness, it recognises a liability of 10 000 ML in the Statement of Water Assets and Water Liabilities.

Dearn would recognise an asset of 10 000 ML as 'water delivered in advance' in the Statement of Water Assets and Water Liabilities.

#### Illustrative example 4: Unspecified extraction rights

McHugh Water (McHugh) is an urban water utility that is a water report entity. It supplies potable water to customers in an urban environment. McHugh has an obligation to provide water to its customers according to a contract of service; however, the volume that McHugh supplies has not been agreed in advance. The users draw at will as much water as they need.

#### **Is the item (the unspecified extraction rights) a present obligation of the water report entity arising from an obligating event? – No**

As the contract of service does not specify the volumes to be delivered, by definition there are no 'undelivered volumes of water relating to the current or past reporting periods' as at the reporting date. Customers take water at will, and as such, any water liability that the urban water utility has to its customers is extinguished simultaneously.

#### **Conclusion**

The obligation to supply water in future reporting periods does not represent a present obligation and therefore is not a water liability of McHugh at the reporting date. Instead, the contract of service gives rise to a future water commitment that would be disclosed in accordance with the ED AWAS 1 paragraphs 140-146.

### Illustrative example 5: Capacity-sharing agreements

Brennan State Government (Brennan) has management responsibilities for Costello Reservoir (Costello) that has a maximum capacity of 10 000 000 ML. Kimmitt Irrigation (Kimmitt) hold the rights to 60% of the water storage in Costello Reservoir.

At the end of the year, the volume of water in the reservoir is 5 000 000 ML.

#### **Is the item (Kimmitt's claim on water in Costello Reservoir) a present obligation of the water report entity (Brennan) arising from an obligating event? – Yes**

Brennan has a present obligation to deliver or make available 60% of the water in Costello to Kimmitt.

#### **Is it probable that the discharge of the present obligation will result in a decrease in the water report entity's assets or an increase in its liabilities? – Yes**

The discharge of the present obligation will result in a decrease in the water assets of Brennan.

#### **Conclusion**

To the extent that Brennan is able to quantify the volume of the water in the reservoir with representational faithfulness, it recognises 100% of the water in Costello Reservoir as a water asset in its Statement of Water Assets and Water Liabilities (i.e. water asset of 5 000 000 ML).

Brennan would also recognise a water liability for Kimmitt's rights to 60% of the water in the reservoir (i.e. 3 000 000 ML).

### Illustrative example 6: Continuous water accounting

Jones Water (Jones) is a water report entity. Jones has management responsibilities for the water storages in the State of McCormack. Jones has issued water rights with the following terms and conditions:

- rightholders are only able to carry over an allocation of 200 ML. Any volume in excess of this is forfeited
- rightholders are only able to extract 120 ML per year
- rightholders are only able to extract a maximum of 300 ML over a three-year (rolling) period.

Jones made the following allocation announcements to Hanley Irrigation (Hanley) over a three-year period:

- Year 1: 100 ML
- Year 2: 100 ML
- Year 3: 120 ML
- Year 4: 130 ML.

Hanley Irrigation made the following extractions:

- Year 1: 0 ML
- Year 2: 120 ML
- Year 3: 120 ML.

The following table summarises the allocations and extractions of Hanley:

Event / Year	Year 1	Year 2	Year 3	Year 4
Allocation announcement	100	100	120	130
Extraction	(0)	(120)	(120)	?

#### **Is the item (the undelivered water to Hanley) a present obligation of the water report entity arising from an obligating event? – Yes**

The allocation announcements relating to Hanley represents an obligating event to Jones for the following volumes:

- End of Year 1 – The amount of undelivered water relating to the current or past reporting periods is 100 ML
- End of Year 2 – The amount of undelivered water relating to the current or past reporting periods is 80 ML
- End of Year 3 – The amount of undelivered water relating to the current or past reporting periods is 80 ML.

#### **Is it probable that the discharge of the present obligation will result in a decrease in the water report entity's assets or an increase in its liabilities? – Yes**

The delivery of water to Hanley will result in a decrease in the water assets of Jones.

## Conclusion

The undelivered volumes of 100 ML, 80 ML and 80 ML at the end of Year 1, Year 2 and Year 3 respectively satisfy the definition of, and probable recognition criterion for, a water liability. Therefore, Jones recognises in its Statement of Water Assets and Water Liabilities a water liability for 100 ML, 80 ML and 80 ML at the end of Year 1, Year 2 and Year 3 respectively.

Although at the end of Year 3 only 60 ML of water is required to be settled within 12 months of the reporting date (calculated as the 300 ML maximum extractable volume over the years less the 240 ML already extracted), 80 ML represents the 'undelivered water relating to current or past reporting periods'. Therefore 80 ML is recognised as a water liability at the end of Year 3.

### Illustrative Example 7: Groundwater overdraw

Hertel Water Corp (Hertel) has management responsibility for a groundwater resource (aquifer). The total volume of water in the aquifer when it is full is 1 700 ML. Historically, the aquifer has experienced an average annual net recharge of 500 ML per year. The Water Resource Management Instrument (WRMI) specifies that the aquifer should not fall below 1 400 ML. The WRMI also specifies water allocation limits on annual extraction that have been calculated to maintain the environmental water level criteria and leave sufficient groundwater through-flow to maintain the saltwater interface at the ocean. Given the average annual recharge of 500 ML per year, the original WRMI set the allocation limit at 300 ML per year. Accordingly, licensed allocations were issued by Hertel for a total of 300 ML per year.

With reduced annual recharge over recent years due to drought conditions, the extractions have resulted in the water level of the aquifer falling to 1 000 ML below the WRMI extractable level of 1 400 ML to 1 000 ML. This means that the aquifer has been 'overdrawn' by 400 ML.

Armour Department of Water (The Department) instructs Hertel to manage the aquifer in a manner that will restore the level of groundwater to the WRMI extractable level of 1 400 ML within a specified period. Hertel responds by revising the annual water allocation limits from 300 ML to 250 ML and introducing strategies to manage future allocations.

Does Hertel have a water liability for the groundwater overdraw?

#### **Is the item (groundwater overdraw) a present obligation of the water report entity arising from an obligating event? – Yes**

The requirement by The Department to restore the aquifer to 1 400 ML represents an obligating event. Hertel has no realistic alternative but to manage the restoration of the aquifer to the extractable limit level.

#### **Is it probable that the discharge of the present obligation will result in a decrease in the water report entity's assets or an increase in its liabilities? – Yes**

Hertel has no obligation to effect restoration through use of other water assets. There is no requirement for Hertel to undertake a managed aquifer recharge – Hertel can simply manage future allocations so that they are less than the natural recharge to cause the aquifer level to rise over time.

However, the 400 ML overdraw represents water taken in the current and prior reporting periods that Hertel is to 'repay' in the future.

#### **Conclusion**

The 400 ML overdraw meets the definition and recognition criteria for a water liability and is therefore recognised as a water liability in the Statement of Water Assets and Water Liabilities.

## F. Implementation guidance on prior period errors

The ED AWAS 1 (paragraphs 35-38) requires that when there is an error in a prior reporting period, the information for that reporting period is restated in subsequent general purpose water accounting reports.

This implementation guidance will consider whether a prior reporting period error has occurred in the following three situations:

### Illustrative example 1:

A material error occurred in a prior reporting period, e.g. typing error when entering a volume, entering the incorrect volume, or disclosing a volume in an incorrect account.

### Illustrative example 2:

Due to an improved understanding of the water system, the quantification approach has been refined, resulting in a material change to the volume to be disclosed in the prior reporting period.

### Illustrative example 3:

The device used to quantify a volume has been changed/upgraded/repared, resulting in a material change to the volume to be disclosed in the prior reporting period.

The proposed guidance for the definition of prior period errors can be summarised into three key criteria and used to demonstrate the disclosure of the situations listed above. Table 1 shows which criteria are being demonstrated in the three illustrative examples that follow:

Table 1: Criteria to identify a prior period errors

Criteria	Illustrative example 1	Illustrative example 2	Illustrative example 3
Omission from/misstatement in the GPWAR?	Yes	Yes	Yes
Information was available at the time?	Yes	Yes	No, the change/upgrade/repair occurred after the reporting period.
Information could be reasonably expected to have been obtained and taken into account?	Yes	No, the information was reported according to the understanding of the system at the time.	No, the information was not available at the time.
<b>Prior period error? (i.e. is restatement required?)</b>	<b>Yes, see illustrative example 1</b>	<b>No, see illustrative example 2</b>	<b>No, see illustrative example 3</b>

### Illustrative example 1: Transposition error in the prior reporting period

The following statements were provided for water report entity Hartley Water Ltd for 2X09:

#### Statement of Water Assets and Water Liabilities as at 30 June

	Note	2X09	2X08
<b>Water assets</b>		<b>ML</b>	<b>ML</b>
Major storage		2 100	1 000
Minor storage		240	200
<b>Total water assets</b>		<b>2 340</b>	<b>1 200</b>
<b>Water liabilities</b>			
Water to be delivered		120	80
<b>Total water liabilities</b>		<b>120</b>	<b>80</b>
Opening net water assets		1 120	1 420
Change in net water assets		1 100	(300)
<b>Closing net water assets</b>		<b>2 220</b>	<b>1 120</b>

#### Statement of Changes in Water Assets and Water Liabilities for the year ended 30 June

	Note	2X09	2X08
<b>Water asset increases</b>		<b>ML</b>	<b>ML</b>
Precipitation on storages		470	400
Runoff		12 500	15 000
<b>Total water asset increases</b>		<b>12 970</b>	<b>15 400</b>
<b>Water asset decreases</b>			
Transmission losses		850	1 050
Delivery of water		11 490	14 100
Unaccounted-for difference		(470)	550
<b>Total water asset decreases</b>		<b>11 870</b>	<b>15 700</b>
<b>Change in net water assets</b>		<b>1 100</b>	<b>(300)</b>

In reporting period 2X10, the report preparer learned that the volume disclosed for 'major storage' in 2X09 (2 100 ML) was incorrect. The correct volume was 1 200 ML. The volume was incorrect because of a transposition error made when entering the volumes in the report. As demonstrated in Table 1 (illustrative example 1), this constituted a prior reporting period error and the volume for 2X09 was restated in the comparative information for the 2X10 water accounting statements:

## Statement of Water Assets and Water Liabilities as at 30 June

	Note	2X10 ML	2X09 ML
<b>Water assets</b>			
Major storage	1	1 000	1 200
Minor storage		190	240
<b>Total water assets</b>		<b>1 190</b>	<b>1 440</b>
<b>Water liabilities</b>			
Water to be delivered		40	120
<b>Total water liabilities</b>		<b>40</b>	<b>120</b>
Opening net water assets		1 320	1 120
Change in net water assets		130	200
<b>Closing net water assets</b>		<b>1 150</b>	<b>1 320</b>

## Statement of Changes in Water Assets and Water Liabilities for the year ended 30 June

	Note	2X10 ML	2X09 ML
<b>Water asset increases</b>			
Precipitation on storages		380	470
Runoff		13 600	12 500
<b>Total water asset increases</b>		<b>13 980</b>	<b>12 970</b>
<b>Water asset decreases</b>			
Transmission losses		1 000	850
Unaccounted-for difference	1	500	430
<b>Total water asset decreases</b>		<b>1 500</b>	<b>1 280</b>
<b>Water liability increases</b>			
Announcement of delivery		12 350	11 490
<b>Total water liability increases</b>		<b>12 350</b>	<b>11 490</b>
<b>Change in net water assets</b>		<b>130</b>	<b>200</b>

### Note 1. Illustrative note disclosure of error correction

The volume disclosed for 'major storage' in the 2X09 water accounting statements prepared in 2X09 was incorrect due to a transposition error. This prior reporting period error has been corrected in the comparative information provided in the water accounting statements for 2X10. The changes are highlighted below:

	Previously reported 2X09	Restated 2X09	Change
Major storage	2 100	1 200	(900)
Unaccounted-for difference	(470)	430	900

## Illustrative example 2: Quantification model refined after prior year general purpose water accounting report was issued

In reporting period 2X09, the following statements were provided for water report entity City of Pye:

### Statement of Water Assets and Water Liabilities as at 30 June

	Note	2X09 ML	2X08 ML
<b>Water assets</b>			
Major storage		38 000	40 000
Distribution system		1 000	1 000
<b>Total water assets</b>		<u>39 000</u>	<u>41 000</u>
Opening net water assets		41 000	40 500
Change in net water assets		<u>(2 000)</u>	<u>500</u>
<b>Closing net water assets</b>		<u><u>39 000</u></u>	<u><u>41 000</u></u>

### Statement of Changes in Water Assets and Water Liabilities for the year ended 30 June

	Note	2X09 ML	2X08 ML
<b>Water asset increases</b>			
Precipitation on storage		2 100	2 000
Runoff		80 400	75 300
<b>Total water asset increases</b>		<u>82 500</u>	<u>77 300</u>
<b>Water asset decreases</b>			
Evaporation		3 600	3 500
Sales to customers		65 900	58 700
Unaccounted-for difference		15 000	14 600
<b>Total water asset decreases</b>		<u>84 500</u>	<u>76 800</u>
<b>Change in net water assets</b>		<u>(2 000)</u>	<u>500</u>

In reporting period 2X10, the model used to quantify runoff was refined. Subsequently, the volume of runoff disclosed in 2X09 (80 400 ML) was more accurately understood to be 76 540 ML. While the inputs were available at the time the general purpose water accounting report was prepared, the refined model was not. As demonstrated in Table 1 (illustrative example 2), this did not constitute a prior reporting period error and a retrospective correction was not required in the 2X10 water accounting statements:

### Statement of Water Assets and Water Liabilities as at 30 June

	Note	2X10 ML	2X09 ML
<b>Water assets</b>			
Major storage		39 025	38 000
Distribution system		1 000	1 000
<b>Total water assets</b>		<u>40 025</u>	<u>39 000</u>
Opening net water assets		39 000	41 000
Change in net water assets		1 025	(2 000)
<b>Closing net water assets</b>		<u>40 025</u>	<u>39 000</u>

### Statement of Changes in Water Assets and Water Liabilities for the year ended 30 June

	Note	2X10 ML	2X09 ML
<b>Water asset increases</b>			
Precipitation on storage		2 000	2 100
Runoff		78 425	80 400
<b>Total water asset increases</b>		<u>80 425</u>	<u>82 500</u>
<b>Water asset decreases</b>			
Evaporation		3 500	3 600
Sales to customers		62 500	65 900
Unaccounted-for difference		13 400	15 000
<b>Total water asset decreases</b>		<u>79 400</u>	<u>84 500</u>
<b>Change in net water assets</b>		<u>1 025</u>	<u>(2 000)</u>

#### Note disclosures:

To the extent that it is considered material, information about the refinement to the model must be included in the note about the runoff line item. Because the less accurate runoff volume in the prior year would have contributed to the unaccounted-for difference for that reporting period, information about the refinement to the model would also be included in the note about the unaccounted-for difference.

### Illustrative example 3: Change to metering system

The following statements were provided for Terracini Irrigation for 2X09:

#### Statement of Water Assets and Water Liabilities as at 30 June

	Note	2X09	2X08
<b>Water assets</b>		<b>ML</b>	<b>ML</b>
Rights to water		14 500	10 000
Distribution system		1 000	1 000
<b>Total water assets</b>		<b>15 500</b>	<b>11 000</b>
Opening net water assets		11 000	9 400
Change in net water assets		4 500	1 600
<b>Closing net water assets</b>		<b>15 500</b>	<b>11 000</b>

#### Statement of Changes in Water Assets and Water Liabilities for the year ended 30 June

	Note	2X09	2X08
<b>Increases</b>		<b>ML</b>	<b>ML</b>
Allocation announcement		95 000	83 000
<b>Total increases</b>		<b>95 000</b>	<b>83 000</b>
<b>Decreases</b>			
Irrigation diversion		72 200	63 850
Unaccounted-for difference		18 300	17 550
<b>Total decreases</b>		<b>90 500</b>	<b>81 400</b>
<b>Change in net water assets</b>		<b>4 500</b>	<b>1 600</b>

In reporting period 2X10, the metering system was upgraded by installing new meters, upgrading some existing meters, and relocating other existing meters. As a result, there was more accurate information available about the split between volumes delivered and lost in transmission. In the light of this information, it was identified that the delivery and transmission loss volumes reported in last year's general purpose water accounting report were incorrect. As demonstrated in Table 1 (illustrative example 1), as this information was not available at the time the general purpose water accounting report was prepared this did not constitute a prior reporting period error, and no retrospective adjustment was necessary for the comparative information provided in 2X10 statements:

### Statement of Water Assets and Water Liabilities as at 30 June

	Note	2X10 ML	2X09 ML
<b>Water assets</b>			
Rights to water		8 200	14 500
Distribution system		1 000	1 000
<b>Total water assets</b>		<u>9 200</u>	<u>15 500</u>
Opening net water assets		15 500	11 000
Change in net water assets		<u>(6 300)</u>	4 500
<b>Closing net water assets</b>		<u>9 200</u>	<u>15 500</u>

### Statement of Changes in Water Assets and Water Liabilities for the year ended 30 June

	Note	2X10 ML	2X09 ML
<b>Increases</b>			
Allocation announcement		83 000	95 000
<b>Total increases</b>		<u>83 000</u>	<u>95 000</u>
<b>Decreases</b>			
Irrigation diversion		75 000	72 200
Unaccounted-for difference		14 300	18 300
<b>Total decreases</b>		<u>89 300</u>	<u>90 500</u>
<b>Change in net water assets</b>		<u>(6 300)</u>	4 500

#### Note disclosures:

As a result of an upgrade to the metering system, the volume disclosed for 'unaccounted-for difference' in the 2X09 water accounting statements was subsequently understood to be incorrect. As this information was not available at the time the general purpose water accounting report was prepared, a retrospective correction was not required in the 2X10 water accounting statements. That the 2X09 runoff volume was not corrected is reflected in the reduced volume of water reported as 'unaccounted-for difference' in 2X10 compared to 2X09.

## G. Implementation guidance on segment reporting

### Identification of segments

Paragraph 161 requires the disclosure of segment information when it is relevant to the decision making of the users of the general purpose water accounting report. Paragraph 163 requires segments to be identified by considering the physical and administrative aspects of the water report entity.

The examples that follow illustrate the identification of segments:

#### **Illustrative example 1: Multiple administrative arrangements**

Meagher Water (Meagher) is a rural water authority with management responsibility for the Donnelly catchment area. The catchment area comprises the Donnelly River (a regulated river) and the Proudfoot River (an unregulated river). The Robinson and McHenry dams are located on the Donnelly River.

The Donnelly Water Resource Management Instrument 2X05 (WRMI) is the principal instrument for water sharing. The WRMI sets out environmental, social and cultural river flow objectives; the supply reliability objectives for the diversion of regulated surface water (the Donnelly River system) the diversion and storage of unregulated surface water (the Proudfoot River). Meagher is responsible for managing the regulated and unregulated entitlement regimes and these are managed independently of each other.

### Identification of segments

The management of Meagher has decided that the Donnelly River system and the Proudfoot River are two separate segments. This is on the basis that the two are independently managed by virtue of the different entitlement regimes relating to each. Further, management considers that users exist who would rely on discrete information for the different segments for the purpose of making and evaluating decisions about Meagher (e.g. water entitlement holders). Accordingly, the general purpose water accounting report for Meagher Water includes segment information for the two segments.

#### **Illustrative example 2: Multiple entities with water management responsibilities**

The Cutler water supply system is a physical water report entity. The system covers the urban water distribution to the township of Cutler, the Mtenje River (which is the town's primary water supply) and the wastewater treatment plant.

The Cutler Water Authority has management responsibility for the urban water distribution system and the Mtenje River.

Wastewater Management has management responsibility for the wastewater treatment plant. The plant is located on Saffery river and it treats all the wastewater from the town of Cutler. A significant portion of the treated water is recycled to water public parks and gardens in order to reduce the load on the town's fresh water supply. All treated water that is not recycled is discharged into the Saffery River.

### Identification of segments

The preparer of the general purpose water accounting report for the Cutler water supply system has decided that the Mtenje River system and the wastewater treatment plant are two separate segments. This is on the basis that the two serve different functions and are managed by different entities. Further, the report preparer considers that users exist who would rely on discrete information for the different segments for the purpose of making and evaluating decisions about the Cutler water supply system. For example, the local council and citizens of the town are interested in the management of the town's primary water supply (the Mtenje River) as well as the performance of the wastewater treatment plant. Accordingly, the general purpose water accounting report for the Cutler water supply system includes segment information for the two segments.

### Illustrative example 3: Multiple locations

Abbey Water (Abbey) is a water utility with management responsibilities for a number of water supply systems within a state. Specifically, Abbey manages the supply of water to the townships of Pendles, Ballat, and Dakes. The water supply systems that supply water to each of the towns are managed independently of each other.

### Identification of segments

The management of Abbey has decided that the three water supply systems supplying water to the three towns are three separate segments. This is on the basis that the three water supply systems are independently managed. Further, management considers that users exist who would rely on discrete information for the different segments for the purpose of making and evaluating decisions about Abbey. For example, the local councils and citizens of each of the towns are interested in the management of their respective water supply system. Accordingly, the general purpose water accounting report for Abbey includes segment information for the three segments.

## H. Implementation guidance on the Accountability Statement

The ED AWAS 1 (paragraphs 50-57) requires that an Accountability Statement shall be included in a general purpose water accounting report, and shall provide information that assists users to assess whether:

- a) the general purpose water accounting report has been prepared and presented in accordance with Australian Water Accounting Standards
- b) externally-imposed requirements relevant to managing the water assets and water liabilities of the water report entity have been complied with
- c) best practices for managing water assets and water liabilities have been applied.

This implementation guidance demonstrates what an Accountability Statement might look like in two different situations:

### **Illustrative example 1:**

This is an illustrative example of an Accountability Statement when a party is accountable for:

- the preparation and presentation of the general purpose water accounting report in accordance with Australian Water Accounting Standards
- management of the water assets and water liabilities of the water report entity, including compliance with externally-imposed requirements relevant to managing the water assets and water liabilities of the water reporting entity.

### **Illustrative example 2:**

This is an illustrative example of an Accountability Statement when a party is:

- accountable for the preparation and presentation of the general purpose water report in accordance with Australian Water Accounting Standards, but NOT
- accountable for the management of some or all of the water assets and water liabilities of the water reporting entity, including compliance with externally-imposed requirements relevant to managing the water assets and water liabilities of the water reporting entity.

### Illustrative example 1:

In the opinion of the undersigned:

1. The management and operations of Wallaroo Water System have been conducted throughout the reported period in compliance with all relevant externally-imposed requirements, including:
  - *Franco Water Act 2X07*
  - Natural Resources Management Act 2X04 (NRM Act)
  - National Water Initiative 2X04 (NWI)
  - Irrigation Act 1X94
  - Franco Environmental Act 2X02
  - Wallaroo Resources Operations Plan
  - Wallaroo River Catchment Environmental Watering Plan.
2. The management and operations of Wallaroo Water System have been conducted throughout the reporting period in compliance with the following practices for managing water resources:
  - United Nations Guidelines on the quantification of groundwater models
  - Franco guidelines on water monitoring.
3. This general purpose water accounting report has been prepared and presented in accordance with the Australian Water Accounting Standard.

Stefan Garlin  
**Chairman**  
**Sergio Water**

Clive McGrath  
**Chief Executive Officer**  
**Sergio Water**

*28 September 2X10*

### Illustrative example 2:

1. Based on the information provided by parties<sup>1</sup> accountable for managing the water assets and water liabilities of the water reporting entity:
  - a) The management and operations of Wallaroo Water System have been conducted throughout the reported period in compliance with all relevant externally-imposed requirements, including:
    - Franco Water Act 2X07
    - Natural Resources Management Act 2X04 (NRM Act)
    - National Water Initiative 2X04 (NWI)
    - Irrigation Act 1X94
    - Franco Environmental Act 2X02
    - Wallaroo Resources Operations Plan
    - Wallaroo River Catchment Environmental Watering Plan
  - b) The management and operations of Wallaroo Water System have been conducted throughout the reporting period in compliance with the following practices for managing water:
    - United Nations Guidelines on the quantification of groundwater models
    - Franco guidelines on water monitoring.
2. In the opinion of the undersigned, this general purpose water accounting report has been prepared and presented in accordance with the Australian Water Accounting Standard which has been based on certified information provided by parties accountable for the management of the water assets and water liabilities of the water reporting entity.

Stefan Garlin  
**Chairman**  
**Sergio Water**

*28 September 2X10*

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<sup>1</sup> A listing of management responsible for water entities within this water report entity are detailed at Annexure 1.

It is likely that the Accountability Statement in Illustrative example 2 would be underpinned by a certification process of some sort initiated by Sergio Water.

The purpose of the following is to provide general purpose water account report preparers with an understanding of how a possible certification process could work in the collation of information for the preparation and presentation of a general purpose water accounting report ensuring compliance with the Australian Water Accounting Standards.

In some instances a party who is accountable for the preparation and presentation of the general purpose water accounting report in accordance with Australian Water Accounting Standards is not accountable for the management of some or all of the water assets and water liabilities of the water reporting entity, including compliance with externally-imposed requirements relevant to managing the water assets and water liabilities of the water reporting entity (see paragraph 55).

When this is the case, the party who is accountable for the preparation and presentation of the general purpose water accounting report would rely on information provided by those who are accountable for the management of some or all of the water assets and water liabilities of the water reporting entity. It is anticipated that the information relied on would be underpinned by a certification process. One potential certification procedure which could be made operative is as follows:

#### **Example certification process**

Sergio Water is the party accountable for the preparation and presentation of the general purpose water accounting report for the Wallaroo Water System in accordance with Australian Water Accounting Standards. However, Sergio Water is not accountable for the management of the water assets and water liabilities included within the Wallaroo Water System.

Those accountable for the management of the water assets and water liabilities included within the Wallaroo Water System are:

- Noakes Groundwater Management;
- Mitchell Irrigation Supply Network Management;
- Crowe River Management; and
- Environmental Manager for Franco Government.

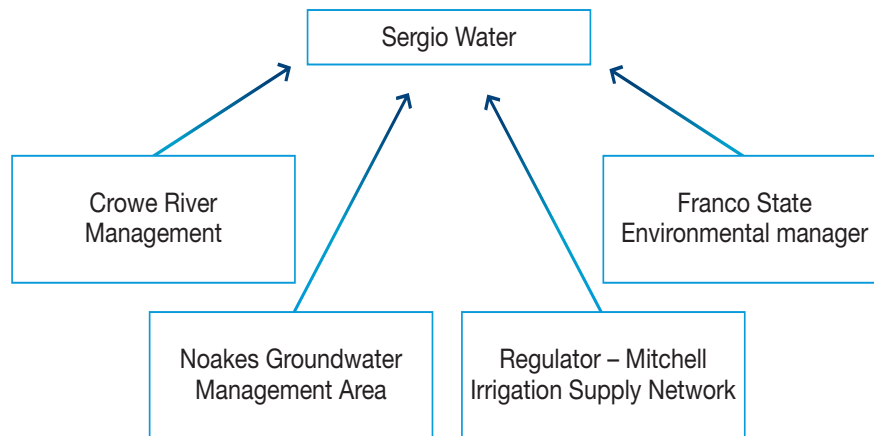
To enable Sergio Water to prepare and present the general purpose water accounting report, each of the aforementioned managers/management groups provides the following information about the water assets and water liabilities for which they are accountable:

- Externally-imposed requirements;
- The practices that have been adopted for managing water resources; and
- Volumetric and other information as required by Australian Water Accounting Standards.

Further, the managers/management groups are required to provide sign-off that:

- i) the volumetric and other information about the water assets and liabilities has been prepared and presented in accordance with Australian Water Accounting Standards;
- ii) the externally-imposed requirements relevant to managing the water assets and water liabilities have been complied with; and
- iii) the identified practices that have been adopted for managing water resources have been complied with.

## Certification Process



### Example certification

As manager of the Regulated Crowe River, I Sofia Sipidles certify that:

1. The management of the water assets and water liabilities of the Regulated Crowe River has been conducted throughout the reported period in compliance with:
  - a) All relevant externally-imposed requirements, including:
    - *Franco Water Act 2X07*
    - Natural Resources Management Act 2X04 (NRM Act)
    - National Water Initiative 2X04 (NWI)
    - Irrigation Act 1X94
    - Franco Environmental Act 2X02
    - Crowe Resources Operations Plan
    - Crowe River Catchment Environmental Watering Plan
  - b) The following practices for managing water:
    - United Nations Guidelines on the quantification of groundwater models
    - Franco guidelines on water monitoring.
2. The volumetric and other information about the water assets and water liabilities of the Regulated Crowe River has been prepared and presented in accordance with Australian Water Accounting Standards.

Sofia Sipidles

10 August 2X10



# Basis for Conclusions



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## Introduction

- B1. The Water Accounting Standards Board (WASB) is responsible to the Director of Meteorology for developing Australian Water Accounting Standards.
- B2. This Basis for conclusions summarises the considerations of the WASB in reaching its conclusions in the Exposure Draft of Australian Water Accounting Standard: *Preparation and Presentation of General Purpose Water Accounting Reports* (ED AWAS 1).

## Background information

### Water accounting and the National Water Initiative

- B3. One of the objectives of the National Water Initiative (NWI) is to standardise the practice of water accounting in Australia so that consistent and comparable information is available to decision-makers at:
  - a) the national level for policy development;
  - b) the jurisdictional level for water resource planning and monitoring;
  - c) the water organisation level for water resource management;
  - d) the site level for on-site water management; and
  - e) the individual level for making decisions about the allocation of resources.
- B4. The *SKM Stocktake Report on Water Accounting* (2006), commissioned by the parties to the NWI, recommended an approach to developing water accounting standards based on that used for financial reporting. In late 2006, the parties to the NWI established the National Water Accounting Development project (NWADp) to progress such an approach.
- B5. The NWADp has primarily involved considering user requirements, developing a Water Accounting Conceptual Framework (WACF) and capacity building within the states and territories through practical pilot testing projects. The WACF will form the foundation for developing Australian Water Accounting Standards (AWAS). The ED AWAS 1 prescribes the basis for preparing and presenting general purpose water accounting reports.
- B6. Under the Commonwealth *Water Act* (2007), the Director of Meteorology has the power to issue water information standards, including water accounting standards.
- B7. The ED AWAS 1 prescribes the basis for the preparing and presenting a general purpose water accounting report, which comprises the following components:
  - a) a Contextual Statement;
  - b) an Accountability Statement;
  - c) a Statement of Water Assets and Water Liabilities;
  - d) a Statement of Changes in Water Assets and Water Liabilities;
  - e) a Statement of Physical Water Flows;
  - f) note disclosures; and
  - g) an Assurance Statement.

- B8. The ED AWAS 1 was developed based on the concepts in the WACF and sets out:
- a) the definitions of the water accounting elements (water assets, water liabilities, changes in water assets, changes in water liabilities and net water assets);
  - b) the recognition criteria for those elements;
  - c) the quantification attribute and unit of account for those elements; and
  - d) disclosure requirements.

### Terrestrial water resource management

- B9. While water accounting tracks and reports stocks and flows of water during the terrestrial phase of the water cycle, it does not account for water in the marine or aerial phases of the water cycle. The focus of water accounting is on water that is fit for purpose, whether that is environmental, social, cultural or economic.
- B10. Terrestrial water resource management can be separated into physical and administrative aspects.
- B11. Physical aspects involve managing all natural sources of water in the terrestrial water phase including catchment runoff and water in aquifers, streams, wetlands and estuaries. All of the human activities that affect the stocks and flows of water are also encompassed. This includes activities such as the regulation of rivers through the storage and controlled release of water storages behind dams, the extraction of groundwater, the diversion of surface water from unregulated streams, the interception of surface runoff in minor catchment storages, the diversion of surface water from regulated rivers and its distribution to customers via rural or urban supply networks, the collection of irrigation drainage or urban wastewater and its recycling or return to rivers, and the desalination of seawater and its connection into urban water storages or supply networks.
- B12. Water in the terrestrial water phase is neither created nor destroyed but can be transformed between solid, liquid and gaseous form, for example as it leaves the terrestrial phase via evaporation. Water accounting uses litres as the unit of volumetric quantification and covers all water transactions that can be included in comprehensive water balance presentations. There will, however, be practical limitations to which water transactions can be included in general purpose water accounting reports, based on considerations of materiality and representational faithfulness. The movement of water into and out of the terrestrial water phase is within the scope of water accounting and will appear as inflows to, or outflows from, water report entities.
- B13. Administrative aspects of terrestrial water resource management are embedded in public policy, legislation, administrative regulation and water resource management instruments such as water sharing plans. Water sharing plans are typically legal instruments that are the basis of sharing water between environmental, economic and social needs. A water sharing plan will typically be based on environmental flow and extractive entitlement reliability objectives. It will also establish management tools such as operational rules, allocation or restriction methods and trading rules when tradability is an attribute of entitlements. Water sharing plans are progressively being developed across Australia, with priority being given to areas assessed as having the highest need for active management of water resources.

- B14. The water resource management instruments that administer the taking and use of water take various forms and have varying degrees of sophistication. They are created from a variety of processes, are titled differently and reflect the priority and water management resources available at the time of their development and creation. They also vary in substance depending largely on the state of underpinning technical knowledge of water source or resource characteristics at the time of their development and creation. These instruments generally apply to a specific source or sources of water; they often have common features related to the type of water source but also often have unique provisions. They have traditionally separated the management of surface water and groundwater, although a shift to more integrated water planning and management is underway.
- B15. The particular concepts and instruments administering the taking and use of water are wide ranging. Sophisticated entitlement regimes can include multiple entitlement types with different reliability and tradability attributes. They can also involve regular allocation determinations and announcements, trading of entitlements and both trading and carryover of annual allocations. Alternatively they may involve continuous sharing of available water allocations and losses and can include controls such as annual caps. Licensing regimes with restriction methods are relatively common for groundwater and unregulated stream sources. Private rights to access water for specified purposes such as domestic and stock watering and even event-based sporadic permits are also part of the range of instruments.
- B16. There are also many ways in which management functions, and hence roles and responsibilities, are assigned among organisations and individuals both between and within Australia's jurisdictions. An appreciation of both the physical and administrative aspects of water resource management applicable to a water report entity is necessary to facilitate the usefulness of general purpose water accounting reports.

## **Objective of general purpose water accounting reports (paragraph 5)**

- B17. Consistent with the WACF, the ED AWAS 1 specifies that the objective of general purpose water accounting reports is to provide information to users that will be useful in:
- a) making and evaluating decisions about the allocation of resources; and
  - b) understanding and evaluating the accountability of managers, management groups or governing bodies of the water report entity for the water assets and water liabilities of the water report entity.
- B18. Also consistent with the WACF, the ED AWAS 1 adopts a water report entity concept that is tied to the information needs of users. Accordingly, general purpose water accounting reports are required to be prepared for a water entity when it is reasonable to expect the existence of users who are:
- a) dependent on water accounting reports for information about water, or rights or other claims to water, which will be useful to them for making and evaluating decisions about the allocation of resources; and
  - b) unable to command the preparation of special purpose water accounting reports to satisfy their information needs.

## General features of general purpose water accounting reports

### Accrual basis of water accounting (paragraphs 13-14)

- B19. With the exception of physical water flow information, the ED AWAS 1 requires general purpose water accounting reports to be prepared using the accrual basis of water accounting.
- B20. Applying the accrual basis of water accounting means that the effects of transactions, transformations and events are recognised when the decisions or commitments that give rise to them occur. This may not necessarily be the time at which water is physically transacted, transformed or subject to some other event. Accrual accounting ensures that transactions, transformations and events are recorded in the Statement of Water Assets and Water Liabilities and the Statement of Changes in Water Assets and Water Liabilities in the reporting periods to which they relate. General purpose water accounting reports prepared on an accrual basis therefore inform users not only of past transactions, transformations or events involving the physical transfer or transformation of water, but also of present obligations to transfer or transform water in the future and of rights that represent water to be transferred to the water report entity in the future.
- B21. The WASB concluded that preparing general purpose water accounting reports using an accrual basis of water accounting would provide information about past transactions, transformations and events that would be most useful to the report users in making and evaluating decisions about the allocation of resources.

### The distinction between the Statement of Changes in Water Assets and Water Liabilities and the Statement of Physical Water Flows

- B22. There is an important distinction between the Statement of Changes in Water Assets and Water Liabilities and the Statement of Physical Water Flows. The former is prepared on an accruals basis and provides information on all transactions, transformations and events that give rise to changes in water assets and water liabilities during the reporting period, irrespective of whether those transactions, transformations or events represent physical water flows. The latter provides information on transactions, transformations and events only when they give rise to physical water flows during the reporting period. The distinction between the two statements is illustrated in the treatment of the allocation carryover, which represents volumes of water that the management of a water report entity is obliged to deliver at the reporting date as a consequence of an allocation determination and announcement before the end of the reporting period under a water sharing plan. The allocation carryover is recognised as a water liability at the reporting date, and the balance of the allocation carryover liability changes from one reporting period to the next as a result of the following events:
- a) it is increased as a result of allocation determinations and announcements made during the reporting period;
  - b) it is decreased as a result of the physical water outflows to settle allocations; and
  - c) it may be increased or decreased by other events such as evaporation adjustments applied to allocation carryover in accordance with a water sharing plan.

The Statement of Changes in Water Assets and Water Liabilities reflects the impact of each of these events.

B23. For example, assume that a water entity has allocation carryover at the beginning of the reporting period of 40 000 ML. That allocation carryover is recognised as a water liability in the Statement of Water Assets and Water Liabilities. Further assume that:

- a) an allocation determination and announcement is made during the reporting period of 150 000 ML; and
- b) 135 000 ML of water is physically transferred during the reporting period to settle both the carryover obligation and part of the current reporting period allocation.

Accordingly, the balance of the allocation carryover liability at the end of the reporting period is 55 000 ML, calculated as follows:

<b>Carryover obligation at beginning of the reporting period</b>	40 000 ML
<i>add</i> allocation determination and announcement made during the reporting period	150 000 ML
<i>less</i> allocation settled during the reporting period	<u>(135 000 ML)</u>
<b>Carryover obligation at the end of the reporting period</b>	<u>55 000 ML</u>

The recognition of these events in the Statement of Changes in Water Assets and Water Liabilities and the Statement of Physical Water Flows is as follows:

	<b>Statement of Changes in Water Assets and Water Liabilities</b>	<b>Statement of Physical Water Flows</b>
Surface water decreases/outflows		
Allocation diversion	135 000 ML	135 000 ML
Change in allocation carryover	15 000 ML	
<b>Total surface water decreases/outflows</b>	<b>150 000 ML</b>	<b>135 000 ML</b>

The following points are noteworthy:

- a) The ED AWAS 1 prescribes ‘water asset decreases’ and ‘water outflows’ as the line items in the Statement of Changes in Water Assets and Water Liabilities and the Statement of Physical Water Flows respectively. However for the purpose of illustration, the additional line items of ‘allocation diversion’ and ‘change in allocation carryover’ have been included in the above table
- b) Allocation diversion represents the take, delivery or the physical water outflows to settle announced allocations (135 000 ML)
- c) Change in allocation carryover represents the difference between the announced allocation volume for the reporting period and the volume of water actually taken or delivered (150 000 ML – 135 000 ML = 15 000 ML)
- d) The Statement of Changes in Water Assets and Water Liabilities is prepared using the accrual basis of water accounting and reflects the impact of both events (the allocation determination and announcement and the physical water outflows), whereas the Statement of Physical Water Flows reflects only the physical water outflows
- e) At the end of the reporting period, the Statement of Water Assets and Water Liabilities, also prepared using the accrual basis of water accounting, would include as a water liability an allocation carryover of 55 000 ML.

## Comparative information (paragraphs 23-31)

- B24. The ED AWAS 1 requires the provision of comparative information within a general purpose water accounting report to enable users to compare the nature and volumes of water assets and water liabilities of a water report entity, and changes in those water assets and water liabilities, over time.
- B25. The ED AWAS 1 proposes:
- a) that the comparative information for all volumes be limited to the immediately preceding reporting period; and
  - b) additional guidance to clarify that comparative information for earlier reporting periods should be presented when it is relevant to an understanding of the current reporting period's general purpose water accounting report.

## Error corrections (paragraphs 35-38)

- B26. The ED AWAS 1 states that material errors may not be discovered until after a general purpose water accounting report has been issued. To meet the qualitative characteristics of comparability in a general purpose water accounting report, the presentation and classification of items are required to be consistent from one reporting period to the next. The WASB considered that similar to this consistency principle, correcting prior reporting period errors would enhance inter-period comparability of information. The ED AWAS 1 therefore explicitly provides guidance on the correction of prior reporting period errors.
- B27. To assist in the application of these principles in the water accounting context, the ED AWAS 1 also includes implementation guidance for report preparers.

## Quantification (paragraphs 43-46)

- B28. The elements of general purpose water accounting reports often possess more than one attribute that can be quantified. Quantifiable attributes of water assets, water liabilities, net water assets and changes in balances of water assets and water liabilities include volume, salinity or monetary value.
- B29. An attribute of an element may be quantified using different units of account. For example, the volume of water assets may be quantified in litres or cubic metres. A water quality attribute such as the salinity of water assets may be expressed in units of account such as milligrams of dissolved solid per litre or microSiemens per centimetre ( $\mu\text{S}/\text{cm}$ ) at 25°C.
- B30. Consistent with the objectives of the NWI related to water resource planning, monitoring, management and policy development (see paragraph B3), the ED AWAS 1 specifies that the quantification attribute for items included in water accounting statements is volume. The WASB also concluded that it would be appropriate to require information about other attributes of an element to be disclosed when that information is relevant to an understanding of the current reporting period's general purpose water accounting report.

## Contextual Statement (paragraphs 48-49)

- B31. The WASB's deliberations included a consideration of whether the ED AWAS 1 should be prescriptive about the information to be provided in the Contextual Statement or merely identify the themes or concepts that the statement should cover. The WASB concluded that the latter 'principles-based' approach would be the preferred approach for the ED AWAS 1. Therefore, the ED AWAS 1 requires the Contextual Statement to provide information that enables users to understand the physical and administrative aspects of the water report entity. Specifically, it should provide information about the water assets and water liabilities of the water report entity as well as any conditions that have an impact on the management of those water assets and water liabilities.
- B32. The WASB also decided that it would be helpful to preparers of general purpose water accounting reports to include additional guidance in the ED AWAS 1 to illustrate the types of information that could be provided in the Contextual Statement. For example, information about the water assets and water liabilities of the water report entity may include details of the geographical location of the water assets and water liabilities, and actual storage volumes compared to total possible storage volumes. Information about conditions that have an impact on the management of those water assets and water liabilities may include the climatic conditions experienced before and during the reporting period and any significant conditions included in, or changes to, institutional or administrative arrangements relevant to the water report entity.

## Accountability Statement (paragraphs 50-57)

- B33. One of the objectives of general purpose water accounting reports is to provide information to users that will be useful in understanding and evaluating the accountability of managers, management groups or governing bodies of the water report entity for the water resources entrusted to them. Consistent with this objective, it was agreed that the ED AWAS 1 should include a requirement for an Accountability Statement that provides information to enable users to assess whether:
- a) the general purpose water accounting report has been prepared and presented in accordance with Australian Water Accounting Standards;
  - b) externally-imposed requirements relevant to managing the water assets and water liabilities of the water report entity have been met; and
  - c) best practice for managing water resources has been applied.
- B34. The WASB also decided that it would be helpful to preparers of general purpose water accounting reports to include additional guidance in the ED AWAS 1 to illustrate information that could be provided in the Accountability Statement. In particular, the ED AWAS 1 identifies a water resource management instrument, such as a water sharing plan, as an example of an externally-imposed requirement relevant to managing the water resources of the water report entity.

- B35. It was similarly concluded that it would be helpful to preparers to identify within the ED AWAS 1 examples of disclosures that may be relevant for the water report entity. These include:
- a) water sharing and extraction limitations;
  - b) water utility services and operations;
  - c) trading of water rights and other claims to water;
  - d) environmental stewardship; and
  - e) water planning and strategic initiatives.
- B36. It was also concluded by the WASB that the Accountability Statement would be most useful for assessing accountability if it is signed by parties who are accountable for each item in paragraph B33.
- B37. However, the WASB acknowledged that there may be instances where the preparer of a general purpose water accounting report is not accountable for all three requirements identified in paragraph B33. This is likely to arise when the general purpose water accounting report is prepared and presented for a physical water report entity, such as a catchment for which there are multiple parties accountable for managing the water assets and water liabilities included in the water accounting reports. It was noted that if all parties with management responsibilities were to sign the Accountability Statement, this could compromise the understandability of the Accountability Statement. In light of this, the WASB developed an approach that avoided the need for multiple signatories.
- B38. The WASB acknowledged that parties would be unwilling to sign off on matters for which they are not accountable. Accordingly, the following principle was developed:
- a) When the party preparing the general purpose water accounting report is accountable for all three requirements, that party should provide sign-off on each of the aspects; or
  - b) When the party preparing the general purpose water accounting report is not accountable for all three requirements, that party should make a statement about compliance based on information that has been provided to them.
- B39. The WASB noted that when the preparer of a general purpose water accounting report is not accountable for all three requirements, some form of certification process is likely to underpin the preparer's reliance on the information provided by other parties.

## Statement of Water Assets and Water Liabilities (paragraphs 58-100)

### Information to be presented (paragraphs 59-64)

- B40. An enhancing quality of the information provided in general purpose water accounting reports is comparability. Information about a water report entity is more useful if it can be compared with similar information about other water report entities or with similar information about the same entity for some other reporting period or some other point in time. Users must be able to compare the general purpose water accounting reports of a water report entity through time in order to identify trends. Users must also be able to compare the general purpose water accounting reports of different water report entities in order to evaluate their relative performance and trends in relation to water assets and water liabilities. To facilitate comparability, the WASB concluded that the ED AWAS 1 should prescribe line items to be included in the water accounting statements.
- B41. In determining the line items, reference was made to the following:
- a) The *SKM Report: Stocktake and Analysis of Australia's Water Accounting Practice* (2006). Appendix B of the report offered an initial review of the possible list of items to be used to record the volumes of water assets and water liabilities of a water report entity, as well as the transactions, transformations and events that give rise to changes in water assets and changes in water liabilities;
  - b) The *Complex Water Balance* (BoM: Water Analysis and Reporting), which is a framework being developed by BoM for use in its Water Balance work. This document was considered particularly relevant because the BoM intends the Water Balance and National Water Account to be as compatible as practicable; and
  - c) The *National Water Accounting Development project (NWADp) Pilot Project Demonstration Accounts*. The line items chosen by each of the jurisdictions to represent the transactions, transformations and events for their respective water report entities were reviewed. This included the demonstration accounts for Pioneer Valley (QLD), Regulated Murrumbidgee River (NSW), Goulburn-Broken Catchment (VIC), Carnarvon Groundwater Management Area (WA), the Regulated River Murray (MDBA) and the Lower River Murray (SA).
- B42. The WASB concluded that while preparers of general purpose water accounting reports should be given the option of presenting additional line items, they should nonetheless be required to present additional sub-classifications when such additional information is relevant to an understanding of the Statement of Water Assets and Water Liabilities.

### Recognition criteria: water assets (paragraphs 65-76)

- B43. The ED AWAS 1 requires an item that meets the definition of a water asset to be recognised in the Statement of Water Assets and Water Liabilities when:
- a) it is probable that future benefits associated with the item will be derived by the individual or organisation that is a water report entity, or by a group of stakeholders of a physical water report entity; and
  - b) the item's volume can be quantified with representational faithfulness.
- B44. An essential characteristic of a water asset is that the water entity must either hold, or have management responsibility for the item.

- B45. In considering the definition of water assets, the WASB considered whether the concept of 'control' should be included. That concept underpins the definition of an asset in a financial reporting context (see AASB *Framework for the Preparation and Presentation of Financial Statements*). However, the WASB concluded that the concept of control was not appropriate in a water context, particularly in respect of physical water entities or water entities that have management responsibilities – but not control – over water assets.
- B46. Accordingly, the WASB determined the concept of 'holds, or has management responsibilities' to be more appropriate for water accounting since a water asset can be 'held' physically, virtually, legally or vicariously and these forms of holding are not mutually exclusive.

### Future benefits (paragraphs 66-68)

- B47. SWAC 4 *Definition of Elements of General Purpose Water Accounting Reports* paragraphs 21-28 discuss future benefits derived by an individual or organisation that is a water report entity. SWAC 4 paragraphs 29-33 contain a discussion of future benefits derived by a group of stakeholders of a physical water entity that is a water report entity. The WASB concluded that the ED AWAS 1 should also include guidance of what is meant by future benefits, and that such guidance should summarise the principles included in SWAC 4.

### Types of water assets (paragraphs 69-75)

- B48. The WASB noted that applying the definition of and recognition criteria for water assets would be relatively straightforward for some items, for example, water in storages behind dams and water within lakes and other natural water surface features. However, the WASB was concerned that the application of the definition and recognition criteria may prove challenging for other items and that, in the absence of additional guidance in the ED AWAS 1, divergent treatments amongst water report entities could emerge. In particular, the WASB concluded that additional guidance within the ED AWAS 1 would be useful for groundwater, dead storage water and conveyance water. In this regard, the main focus of the WASB's deliberations was on part (a) of the recognition criteria (probable future benefits).

### Groundwater (paragraph 71)

- B49. For some groundwater assets, volumetric information is available about the total water in the aquifer. However, typically only a small portion of this water is available to be accessed, taken or delivered due to extractive limits included in the water resource management instrument. This is because extractions above a certain level may be detrimental to the surrounding ecosystem or may result in contamination of the aquifer.
- B50. The WASB considered whether it would be appropriate to recognise as a water asset the total water in the system or only the volume representing the extractable portion. Put another way, the WASB considered whether, given the restrictions on the ability to extract water from the aquifer, it could be concluded that it would be probable that future benefits would be derived from the total volume of water in the system. This in turn raised the question of what should be considered to be future benefits.

B51. Paragraph 21 of the Statement of Water Accounting Concepts 4 *Definition of Elements of General Purpose Water Accounting Reports* (SWAC 4) states the following:

The future benefits embodied in an asset may flow to the water reporting entity or to stakeholders of a physical water entity that is a water reporting entity in a number of ways. For example, an asset may be:

- a) used singly or in combination with other assets or water assets;
- b) exchanged for other assets or water assets;
- c) used to settle a liability or water liability; and
- d) distributed to the owners of the water reporting entity or other stakeholders of the water reporting entity.

B52. SWAC 4 then provides an analysis of future benefits related to a water report entity and those related to a physical water report entity. For example, paragraph 22 states the following:

In the case of an individual or organisation that is a water reporting entity, future benefits derived by the water reporting entity are contributions to achieving the economic, environmental, social or other objectives of the water reporting entity.

B53. Paragraph 25 of SWAC 4 states the following:

Future benefits that achieve environmental objectives of a water reporting entity may produce environmental benefits, or prevent or reduce environmental degradation. For example, water stored in the dams of a park with environmental protection objectives may be released to mitigate the nature and extent of deterioration of rivers and environmental sites during drought conditions.

B54. Consistent with the notion of deriving environmental benefits, some argue that the entire groundwater system could be regarded as providing future benefits in the form of preserving ecosystems. In other words, notwithstanding that only a restricted or limited volume of groundwater is available to be extracted, future benefits are derived in the form of achieving the environmental objectives of the water report entity. Therefore, provided it can be quantified with representational faithfulness, the entire volume of groundwater should be recognised as a water asset in the Statement of Water Assets and Water Liabilities.

B55. Alternatively, others consider the argument that the entire groundwater system contributes to the achievement of environmental objectives of the water report entity to be tenuous. They argue that an assessment of the future benefits to be derived from the groundwater system should be limited to the amounts capable of being accessed, taken or delivered. The fact that the non-extractable portions contribute to the attainment of environmental benefits, such as the preservation of ecosystems and the avoidance of salt contamination, is secondary to the benefits to be derived from the use of the extractable portions. Therefore, provided it can be quantified with representational faithfulness, only the extractable volume of groundwater should be recognised as a water asset in the Statement of Water Assets and Water Liabilities.

B56. In considering this issue, the financial reporting analogy of a 'contingent asset' was explored. A contingent asset is defined in International Financial Reporting Standards as follows:

a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

- B57. The WASB noted that those who argue that only the extractable volume of groundwater should be recognised as a water asset would make an analogous argument that the non-extractable portion of the aquifer is in the nature of a contingent asset. In other words, the non-extractable volume represents only a possible asset because the ability to extract volumes in excess of the specified extractable volumes would be contingent on changes to the relevant legislative or regulatory requirements or the triggering of waiver provisions, all of which are uncertain events not wholly within the control of the management of the water report entity.
- B58. The WASB also considered whether recognition of the entire volume of groundwater would be consistent with the objective of providing relevant information to users of general purpose water accounting reports. SWAC 3 *Qualitative Characteristics of General Purpose Water Accounting Reports* outlines the qualitative characteristics of general purpose water accounting reports. Paragraph 18 states the following:
- An essential quality of the information provided in GPWAR is that it is relevant to the decision-making needs of users. Information is considered to be relevant when it influences, or has the capacity to influence, users' decisions about the allocation of resources. Information is capable of influencing users' decisions when it has predictive value, confirmatory value or both. Information is useful if it assists users by helping them to understand and evaluate past, present or future water events, transactions or transformations.
- B59. As noted in SWAC 3, information is considered to be relevant when it influences, or has the capacity to influence, users' decisions about the allocation of resources. The WASB noted during its deliberations that concerns had been raised when preparing demonstration accounts as part of the NWADp Pilot Program that presenting a total volume would increase the risk of over-consumption of the water resource.
- B60. After considering each of the arguments, the WASB concluded that groundwater should be viewed, in the first instance, as a contingent water asset on the basis that it does not meet the definition of a water asset. However, the WASB further concluded that the extractable portion of the groundwater meets the definition of a water asset and also satisfies the recognition criterion relating to probable future benefits. Therefore, provided it can be quantified with representational faithfulness, the extractable volume of groundwater should be recognised as a water asset in the Statement of Water Assets and Water Liabilities.
- B61. Because, in forming this conclusion, reference had been made to the accounting concept of a contingent asset, the WASB decided that it would be useful to include a similar concept in the ED AWAS 1 (see paragraphs B77-B80).

### Dead storage water (paragraph 72)

- B62. Some argue that dead storage water provides future benefits to the water report entity for the following reasons:
- a) it provides access to the surface water above it;
  - b) if the storage level falls below the elevation of the lowest constructed outlet, the dead storage water could be accessed and, with some effort and investment, taken or delivered; and
  - c) if the dead storage water was not there it would need to be replaced for storage to function as intended. Consequently, there is a benefit in not having to replace it with other water assets.

- B63. Others disregard these arguments on the basis that an assessment of future benefits should be limited to amounts that are capable of being accessed and used. They further argue that consistent with the treatment of the non-extractable portion of groundwater, dead storage water could be considered to be in the nature of a contingent water asset.
- B64. However it was noted that a key characteristic of a contingent water asset is that it is a possible water asset whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Accessing dead storage water is generally within the control of the management of a water report entity via the use of alternative extraction methods. In contrast, the non-extractable portion of groundwater is in the nature of a contingent asset because the ability to access is not within the control of the management of the water report entity.
- B65. The WASB concluded that dead storage water meets the definition of a water asset as well as the recognition criterion relating to probable future benefits. Therefore, provided its volume can be quantified with representational faithfulness, dead storage water is recognised as a water asset in the Statement of Water Assets and Water Liabilities.

### Conveyance water (paragraph 73)

- B66. The WASB noted that conveyance water provides future benefits for the following reasons:
- a) it enables the delivery of water in regulated rivers and utility supply networks by covering the loss of water in the delivery process;
  - b) if necessary, it could be accessed and taken or delivered; and
  - c) if conveyance water was not part of a delivery system it would need to be replaced for the delivery system to function as intended. Consequently, there is a benefit in not having to replace it with other water assets.
- B67. The WASB concluded that conveyance water meets the definition of a water asset as well as the recognition criterion relating to probable future benefits. Therefore, provided its volume can be quantified with representational faithfulness, conveyance water is recognised as a water asset in the Statement of Water Assets and Water Liabilities.

### Present right or other present claim to water (paragraph 74-76)

- B68. As part of its deliberations on the accounting for a right or other claim to water (water right), the WASB agreed that the treatment of a water right by the holder of the water right should be symmetrical to the treatment of the obligation by the counterparty (i.e. the party with the obligation to supply water under the water right).
- B69. As discussed in paragraphs 87-91 of the ED AWAS 1 (and further discussed in paragraphs B83-B84 below), a present obligation only exists for any undelivered volumes relating to current or past reporting periods. An obligation to deliver water in future reporting periods is not a present obligation but rather a future commitment which is recognised as a water liability. To achieve symmetrical accounting, it was agreed that guidance should be included in the ED AWAS 1 specifying that a water right meets the definition a water asset when it represents a *present* right or other *present* claim to water. Further, it is only the undelivered volumes relating to the current or past reporting periods that give rise to a *present* right. The right to water under an allocation relating to future reporting periods is not a present right but rather a future right and therefore is not recognised as a water asset.

B70. The WASB noted that amending the definition of water assets to refer to present right or other present claim to water would be useful. However, as the definition of water asset in the ED AWAS 1 has been taken directly from the Water Accounting Conceptual Framework for the Preparation and Presentation of General Purpose Water Accounting Reports, the WASB agreed that the definition in the ED AWAS 1 should only be amended after the definition in the Framework is amended. It was noted that a review of the Framework is expected in the near future and that the water asset definition would be reviewed at that time.

### Future water rights (paragraphs 77-80)

- B71. Consistent with the objective of general purpose water accounting reports, the WASB considered that it would be useful to require information to be disclosed in those reports about the extent to which water assets at the reporting date would be available to settle water liabilities and other commitments within 12 months of the reporting date.
- B72. One approach considered for providing this information was to require information to be presented in the Statement of Water Assets and Water Liabilities based on a temporal classification of water assets and water liabilities. It was noted that temporal classification is applied in financial reporting. For example, the assets and liabilities recognised in an entity's Statement of Financial Position are classified as current or non-current in accordance with specified criteria (an asset that is expected to be realised within 12 months of the reporting date or a liability that is due to be settled within 12 months of the reporting date would be classified as current for financial reporting purposes). However, the WASB noted that adopting a temporal classification approach for the Statement of Water Assets and Water Liabilities would not provide sufficiently detailed information. This is because future water commitments expected to be settled within 12 months but not representing present obligations at the reporting date would not be recognised as water liabilities in the Statement of Water Assets and Water Liabilities. Consequently, ED AWAS 1 requires information to be disclosed in the notes about the extent to which water assets at the reporting date would be available to settle water liabilities and other commitments within 12 months of the reporting date.
- B73. The WASB also agreed that for the note disclosure to provide fulsome information on a water entity's future water prospects, it would be appropriate to include information about future water rights expected to be realised within 12 months of the reporting date.
- B74. To give effect to its decision to provide this information, the WASB agreed that guidance on what constitutes a future water right should be included in the ED AWAS 1. The WASB agreed that future water rights are not, at the reporting date, present rights or other present claims to water and are therefore not recognised as water assets in the Statement of Water Assets and Water Liabilities. It was further agreed that future water rights should be defined as a right or other claim to water that relates to future reporting periods.
- B75. The WASB also decided to include in the ED AWAS 1 guidance to demonstrate a future water right. ED AWAS 1 therefore provides the examples of expected future allocation announcements and rights under an ongoing water commitment, clarifying that they are not, at the reporting date, present rights of the water report entity. Rather, they represent rights or other claims to water that relate to future reporting periods.
- B76. See paragraphs B126-B129 for a discussion of the disclosure requirements related to water assets available to settle water liabilities and future water commitments expected to be settled within 12 months of the reporting date.

## Contingent water assets (paragraphs 81-85)

- B77. As noted in paragraph B56, reference was made to the accounting concept of a contingent asset in reaching conclusions about the treatment of groundwater. The WASB decided it would be useful to include a similar concept in the ED AWAS 1.
- B78. The WASB agreed that a contingent water asset should be defined as a possible water asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the management of the water report entity.
- B79. Because it is only a possible water asset, a contingent water asset does not meet the definition of water assets. It is therefore not recognised in the Statement of Water Assets and Water Liabilities.
- B80. The WASB decided it would be helpful to preparers of general purpose water accounting reports to include additional guidance in the ED AWAS 1 to illustrate the concept of a contingent water asset. The ED AWAS 1 therefore includes the example of groundwater discussed in paragraphs B49-B61, clarifying that the non-extractable portion of groundwater is a contingent water asset because it is possible that a change in circumstances not wholly within the control of the management of the water report entity (such as legislative changes that alter the extractive limits) would result in further portions of the groundwater storage becoming available for extraction.

## Recognition criteria: water liabilities (paragraphs 86-91)

- B81. The ED AWAS 1 requires an item that meets the definition of a water liability to be recognised in the Statement of Water Assets and Water Liabilities when:
- a) it is probable that the present obligation will result in a decrease in the water report entity's assets or an increase in another water liability when the obligation is discharged; and
  - b) the item's volume can be quantified with representational faithfulness.
- B82. In considering the definition and recognition criteria for water liabilities, the WASB concluded that providing additional guidance in the ED AWAS 1 on the notion of a present obligation would be useful for preparers of general purpose water accounting reports.

## Present obligation (paragraphs 87-91)

- B83. To meet the definition of a water liability it is necessary that the item constitutes a present obligation of the water report entity. Paragraph 34 of SWAC 4 states the following:

An essential characteristic of a water liability that is reported by a water reporting entity is that the water reporting entity has a present obligation. An obligation is a duty or responsibility to act or perform in a certain way. Obligations may be legally enforceable as a consequence of a binding contract or statutory requirement. This is normally the case, for example, with volumes of water deliverable under contract or as a consequence of an allocation announcement under a water sharing plan.

B84. The WASB noted that SWAC 4:34 identifies volumes of water deliverable as a consequence of an allocation determination and announcement under a water sharing plan as being an obligation. The WASB agreed that an allocation determination and announcement would give rise to a present obligation and that such a determination was relatively straightforward. However the WASB was concerned that in other cases, determining whether a present obligation exists may prove challenging and that in the absence of additional guidance, divergent treatments could emerge. For example, the WASB agreed that additional guidance would be useful for ongoing water commitments, which arise when a water report entity is subject to a water sharing plan that requires it to deliver a monthly minimum flow of water to another water report entity to the extent that there is available water. The WASB considered whether the ongoing water commitment represented a present obligation of the water report entity.

### Ongoing water commitments (paragraph 91)

B85. The WASB noted that the definition of a water liability in SWAC 4 draws on the definition of a liability in Financial Reporting Standards. The definition of a liability in Financial Reporting Standards also makes use of the term 'present obligation'. Therefore, the financial reporting concept of a 'present obligation' was considered.

B86. International Financial Reporting Standards contain the following definitions:

A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

A provision is a liability of uncertain timing or amount.

A contingent liability is:

- a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- b) a present obligation that arises from past events but is not recognised because:
  - i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
  - ii) the amount of the obligation cannot be measured with sufficient reliability.

The WASB noted that a contingent liability in a financial reporting context can be either a possible obligation (part (a) of the definition of a contingent liability) or an unrecognised present obligation (part (b) of the definition of a contingent liability). In this regard, the main focus of the WASB's deliberations was on contingent liabilities that represent possible obligations and not unrecognised present obligations.

B87. International Financial Reporting Standards also distinguish between a provision and a contingent liability. This is significant because a provision is recognised as a liability in the financial statements when recognition criteria are met, whereas contingent liabilities are not permitted to be recognised in the financial statements. A provision is 'a present obligation ... that arises from past events, the settlement of which is expected to result in an outflow ...' whereas a contingent liability is 'a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.' A contingent liability is a possible obligation because it is yet to be confirmed whether the entity has a present obligation that could lead to an outflow of resources. The definition of both a provision and a contingent liability refers to obligations (be they present or possible) that arise from past events.

- B88. International Financial Reporting Standards specify that a past event that leads to a present obligation is an obligating event, and contains the following definition:
- An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.
- B89. Therefore, it is necessary to determine whether a past event constitutes an obligating event, and gives rise to a present obligation rather than a possible obligation.
- B90. International Financial Reporting Standards provide examples of what constitutes an obligating event. One example involves a manufacturer granting a warranty to purchasers of its product at the time of sale. The sale of the product represents an obligating event because it creates a present legal obligation on the manufacturer to make good any defective products. Another example involves an entity operating an oil rig whereby the terms of its licence require it to remove the rig at the end of production and restore the seabed. The construction of the rig represents an obligating event because it creates a present legal obligation on the entity to remove the rig and restore the seabed at the end of production.
- B91. International Financial Reporting Standards also provide examples of events that do not give rise to a present obligation. One example is a court case in which the facts and circumstances suggest that the defendant will not be found liable. On that basis, the event that led to the litigation is not considered to be an obligating event. Instead, it is a past event that gives rise to a possible obligation whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity (the decision of the court). In other words, the obligation to pay damages is contingent upon the outcome of the litigation.
- B92. Another example of a contingent liability is when an entity acquires an asset and is obligated under the sale and purchase agreement to pay the vendor a percentage of the sales generated from the asset. The signing of the sale and purchase agreement does not constitute an obligating event. Instead, it is a past event that gives rise to a possible obligation whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity (sales generated from the asset). In other words, the obligation to make payments to the vendor is contingent upon sales being generated by the asset. The fact that the entity expects to generate sales from the asset does not constitute an obligating event. It is only when the sales are made that a present obligation is triggered.
- B93. Some argue the enactment of the water resource management instrument that imposes an ongoing water commitment is the obligating event that gives rise to a present obligation to deliver water. However, this raises a further question about the quantification of the ongoing water commitment. For example, because it is an ongoing commitment, should the obligation be measured (i) into perpetuity; (ii) to the extent that the water report entity has existing water that is available to satisfy the ongoing commitment; or (iii) for a specified, albeit arbitrary, time period (for example, volumes to be delivered within the next 12 months)?

- B94. Others note that supply of water under an ongoing water commitment is ultimately subject to the water being available. Further, an inability to deliver water in a particular month typically does not result in a carryover of the undelivered amount. Therefore, the obligation to deliver water is contingent on sufficient water being available in a given month, meaning that the obligating event is not the enactment of the water resource management instrument but rather the availability of water over time. In other words, the obligation to deliver water arises over time, and is dependent on water availability. Those who support this approach argue that there is a present obligation only for the undelivered volumes relating to past months for which there was sufficient water available to meet the minimum flow requirements. The requirement to deliver water in future reporting periods under an ongoing water commitment is not a present obligation of the water report entity at the reporting date but rather a possible obligation (because the obligation to deliver is contingent on the availability of water in the future).
- B95. After considering each of the arguments, the WASB concluded that the obligating event relating to an ongoing water commitment is not the enactment of the water resource management instrument but rather the availability of water to meet the minimum flow requirements for a particular month. Accordingly, a present obligation would exist at the reporting date for any undelivered volumes relating to past months for which sufficient water was available to meet the minimum flow requirements. The requirement to deliver water in future reporting periods under an ongoing water commitment is not a present obligation but rather a possible obligation.

### Constructive obligations (paragraph 91)

- B96. As noted in paragraph B84, the WASB believed that determining whether a present obligation exists may prove challenging and that, in the absence of additional guidance, divergent treatments amongst water report entities could emerge. In addition to considering present obligations in the context of ongoing water commitments, it was agreed that present obligations in the form of constructive obligations should also be considered.
- B97. It was noted that SWAC 4:34 states the following:

...Obligations also arise, however, from normal business practice, custom and a desire to maintain good business relations or act in an equitable manner. If, for example, management of an entity decides as a matter of policy to return water to the environment, even when there exists no enforceable obligation to do so, the obligation creates a water liability.

In a financial reporting context, obligations that arise in this manner are referred to as constructive obligations and are distinguished from legal obligations. International Financial Reporting Standards contain the following definitions of constructive and legal obligations:

A constructive obligation is an obligation that derives from an entity's actions where:

- a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

A legal obligation is an obligation that derives from:

- a) a contract (through its explicit or implicit terms);
- b) legislation; or
- c) other operation of law.

- B98. Volumes of water deliverable as a consequence of an allocation announcement or an ongoing water commitment under a water sharing plan represent legal obligations.
- B99. The WASB noted that a constructive obligation may arise, for example, when the management of the water report entity has indicated to other parties that a certain volume of water will be returned to the environment each reporting period and in doing so has created a valid expectation on the part of those parties that the water will be returned if sufficient water is available. Similar to the conclusion reached for ongoing water commitments, the WASB concluded that a present obligation exists at the reporting date for any water that is yet to be returned to the environment in accordance with management's decision. Importantly, it is only the water that is expected to be delivered that relates to the current or prior reporting periods that gives rise to a present obligation at the reporting date. A decision to return water in future reporting periods is not a present obligation but rather a possible obligation.
- B100. Because, in forming this conclusion, reference was made to the accounting concepts of obligating events, legal obligations, constructive obligations and contingent liabilities, the WASB decided to include similar concepts in the ED AWAS 1 (see paragraphs B105-B109 for a discussion of contingent water liabilities).

#### Future water commitments (paragraphs 92-95)

- B101. As discussed in paragraph B71, consistent with the objective of general purpose water accounting reports, the WASB concluded it would be useful to require information to be disclosed in the notes about the extent to which water assets at the reporting date would be available to settle water liabilities and other commitments within 12 months of the reporting date.
- B102. To give effect to this decision, the WASB agreed that guidance on what constitutes a future water commitment should be included in the ED AWAS 1. The WASB agreed that future water commitments are not, at the reporting date, present obligations of the water report entity and are therefore not recognised as water liabilities in the Statement of Water Assets and Water Liabilities. It was further agreed that future water commitments should be defined as expected future demands on water influenced by the availability and management of the water assets of the water report entity. They may arise as a result of externally-imposed requirements or best practice for managing water assets.
- B103. The WASB also decided that the ED AWAS 1 should include an example to illustrate a future water commitment. It therefore provides the example of expected future allocation announcements, clarifying that they are not, at the reporting date, present obligations of the water report entity. Rather, they represent expected future demands on water influenced by the availability and the management of the water assets of the water report entity.
- B104. See paragraphs B126 B129 for a discussion of the disclosure requirements related to water assets available to settle water liabilities and future water commitments expected to be settled within 12 months of the reporting date.

## Contingent water liability (paragraphs 96-100)

- B105. As noted in paragraph B100, reference was made to the accounting concept of a contingent liability in reaching conclusions about the concept of a present obligation. The WASB decided it would be useful to include a similar concept in the ED AWAS 1.
- B106. The WASB agreed to draw on the financial reporting definition of a contingent liability and to therefore define a contingent water liability as an obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the water report entity.
- B107. Because it is a possible obligation, a contingent water liability does not meet the definition for water liabilities. It is therefore not recognised in the Statement of Water Assets and Water Liabilities.
- B108. The WASB decided that it would be helpful to preparers of general purpose water accounting reports to include additional guidance in the ED AWAS 1 to illustrate the concept of a contingent water liability. In particular, the ED AWAS 1 includes the example of an ongoing water commitment, clarifying that the requirement to deliver water in future reporting periods under an ongoing water commitment is a contingent water liability because the delivery of water depends on sufficient water being available in a given future month.
- B109. The WASB also noted that a contingent water liability may also represent a future water commitment. To the extent that a contingent water liability is also a future water commitment expected to be settled within 12 months of the reporting date, information about that future water commitment is disclosed in the note disclosures.

## Statement of Changes in Water Assets and Water Liabilities and Statement of Physical Water Flows (paragraphs 101-116)

### Information to be presented (paragraphs 103-106 and 111-116)

- B110. As noted in paragraph B40, to facilitate comparability, the WASB concluded that the ED AWAS 1 should prescribe the line items to be included in the water accounting statements, but still allow for flexibility in presentation based on the nature of the water report entity and the information needs of users of the water accounting report.
- B111. The WASB also concluded that while preparers of general purpose water accounting reports should be given the option of presenting additional line items, they should nonetheless be required to present additional sub-classifications when such additional information is relevant to an understanding of the Statement of Changes in Water Assets and Water Liabilities and the Statement of Physical Water Flows.

## Group water accounting reports (paragraphs 117-121)

B112. To aid and inform the preparation of water accounting reports for a water report entity that comprises several water entities, the WASB decided to include in the ED AWAS 1 requirements and guidance related to the preparation of group water accounting reports. A group water accounting report is the water accounting report of a group water report entity presented as a single water entity.

B113. Specifically, the following issues were considered:

- a) whether specific requirements for preparing group water accounting reports should be included;
- b) whether criteria should be included for determining when a group water accounting report should be prepared;
- c) what definitions relating to the preparation of a group water accounting report should be included;
- d) what procedural guidance should be included for preparing group water accounting reports; and
- e) what group-related disclosure requirements should be included.

### Requirements for preparing general purpose water accounting reports versus group water accounting reports

#### Basis for preparing group water accounting reports

B114. A key issue for consideration was whether the ED AWAS 1 should specify a basis for determining the circumstances in which a group water accounting report would be required to be prepared.

B115. By way of a financial reporting analogy, Australian Accounting Standard AASB 127 *Consolidated and Separate Financial Statements* prescribes 'control' as the basis for preparing consolidated financial statements. That is, an entity (parent) is required to prepare consolidated financial statements in which it consolidates all of the entities that it controls (subsidiaries).

B116. The WASB decided that a basis was not required in a water accounting context since the requirement to consolidate a number of water entities into a single water entity would ultimately come via a regulation, statute or directive from an authority such as the Bureau of Meteorology. Accordingly, a basis for preparing group water accounting reports is not included in the ED AWAS 1. Instead, the ED AWAS 1 defines a group water report entity as a water report entity comprising individual water entities and for which a group water accounting report is required to be prepared under a regulation, statute or directive. It also prescribes the procedures to be applied in preparing group water accounting reports.

#### Defined terms to be included in the ED AWAS 1

B117. Because the requirements and guidance for preparing group water accounting reports that are general purpose water accounting reports are described in the ED AWAS 1, the WASB decided to include in the ED AWAS 1 a definition of a group water accounting report.

- B118. By way of a financial reporting analogy, AASB 127 defines consolidated financial statements as 'the financial statements of a group presented as those of a single economic entity'. It goes on to define a group as 'a parent and all its subsidiaries', with the parent subsidiary relationship underpinned by the concept of control.
- B119. The WASB decided that aspects of this definition could be used in a water accounting context. In particular:
- a) a group water accounting report is the water accounting report of a group water report entity presented as a single water entity; and
  - b) a group water report entity is a water report entity comprising individual water entities and for which a group water accounting report is required to be prepared under some regulation, statute or directive.
- B120. The definition of a group water report entity specifies that a group water entity comprises water entities rather than water report entities. This is because a group water report entity may comprise water entities that are not themselves water report entities.

### Procedures for preparing group water accounting reports

- B121. Within a group water report entity, transactions may occur regularly between lower level water entities. For example, one water entity's outflows to another water entity represent inflows of the latter. Such transactions will be recorded in the water accounting reports of the respective water entities. For a group water report to present water information for the overarching water report entity as a single water entity, transactions between lower level water report entities will need to be examined and adjustments made as appropriate to ensure there is no overstatement or double-counting of water assets, water liabilities, changes in water assets, changes in water liabilities, water inflows or water outflows. For example, when the outflows from one water entity represent the inflows of another, simply aggregating the water accounting statements of these water entities would result in an overstatement of both inflows and outflows.
- B122. In considering the procedural guidance to be included in the ED AWAS 1 for preparing group water accounting reports, reference was made to AASB 127, which prescribes a number of consolidation procedures to be applied in the preparation of consolidated financial statements. In particular, the WASB decided to include requirements and guidance dealing with:
- a) the need for transactions between water entities within a group to be eliminated as appropriate to avoid overstating or double-counting the elements of water accounting statements;
  - b) the need for the water accounting statements for all water entities within the group to be prepared as of the same date and for the same reporting period to provide meaningful information as at a point in time and for a particular period; and
  - c) the need for the water accounting statements of all water entities within the group to be prepared using uniform water accounting policies for like transactions and other events to ensure a meaningful aggregation of consistent information.

B123. In terms of the requirement to make adjustments to avoid overstating or double-counting the elements of water accounting statements, consider the following example:

A group water report entity comprises Water Entity A and Water Entity B:

- a) Water Entity A's only surface water increase during the reporting period is an inflow of 250 000 ML;
- b) Water Entity A's only surface water decrease is the delivery of water (outflow) to Water Entity B;
- c) Water Entity B's only surface water increase for the reporting period is an inflow of 240 000 ML from Water Entity A; and
- d) Water Entity B's only surface water decrease during the reporting period is an outflow of 225 000 ML.

The following table illustrates the quantification of the amounts in the Statement of Changes in Water Assets and Water Liabilities for the group water report entity:

	<b>Surface water increases</b>	<b>Surface water decreases</b>	<b>Change in net water assets</b>
<b>Water Entity A</b>	250 000 ML	240 000 ML	10 000 ML
<b>Water Entity B</b>	240 000 ML	225 000 ML	15 000 ML
<b>Aggregation</b>	490 000 ML	465 000 ML	25 000 ML
<b>Adjustments</b>	(240 000 ML)	(240 000 ML)	
<b>Group Water Report Entity</b>	250 000 ML	225 000 ML	25 000 ML

The 'Aggregation' column represents the summation of Water Entity A and B. The 'Group Water Report Entity' column is the aggregation of Water Entity A and B reported volumes adjusted to eliminate the effect of the water flows that occurred between these two entities during the reporting period, in order to present the group as a single water report entity. Therefore, from a group perspective, the surface water increases are inflows of 250 000 ML, not 490 000 ML. Similarly, the group's surface water decreases are outflows of 225 000 ML, not 465 000 ML. While the change in net water assets in both the Aggregation and Group columns is the same (25 000 ML), failure to make the adjustment for water flows between the two water entities results in an overstatement of the surface water increases and surface water decreases from the group's perspective.

### Group-related disclosure requirements (paragraph 166)

B124. In developing the group-related disclosure requirements to be included in the ED AWAS 1, reference was made to AASB 127 – *Consolidated and Separate Financial Statements*, which prescribes a number of disclosures in the preparation of consolidated financial statements. However, the WASB concluded that many of the financial reporting disclosure requirements were not relevant in a water accounting context, such as those relating to the application of the control concept and the relationship between a parent and subsidiary. It was decided that the most relevant information, in addition to disclosures otherwise required by the ED AWAS 1, is the names of all the water entities comprising the group.

## Note disclosures (paragraphs 122-166)

B125. Consistent with the objective of general purpose water accounting reports, the WASB agreed that the following note disclosure requirements should be included in the ED AWAS 1:

- a) a summary of the significant water accounting policies used in the preparation of the general purpose water accounting report
- b) information about items presented in the water accounting statements, including:
  - i) information about the restatement of comparative information;
  - ii) information about error corrections;
  - iii) information about quantification approaches; and
  - iv) reconciliations and other information related to the Statement of Physical Water Flows.
- c) other notes, including information about
  - i) future prospects;
  - ii) contingent water assets and contingent water liabilities;
  - iii) water assets and water liabilities that fail the recognition criteria;
  - iv) water rights, water allocations and water restrictions;
  - v) water market activity;
  - vi) water for environmental, social and cultural, and economic benefit;
  - vii) segments; and
  - viii) group water accounting reports.

## Future prospects (paragraphs 140-146)

B126. As outlined in paragraphs B71-B76 and paragraphs B101-B104, the WASB agreed it would be useful to require information to be disclosed in the notes about the extent to which water assets at the reporting date will be available to settle water liabilities and future water commitments within 12 months of the reporting date.

B127. The WASB decided to include additional guidance to illustrate the concept of 'available' water assets. There was concern that divergent treatments might emerge amongst water report entities without such additional guidance. Therefore, the ED AWAS 1 includes the examples of dead storage water and conveyance water, clarifying that while they meet the definition of a water asset, they are typically not able to be accessed and taken or delivered to settle water liabilities or future water commitments. Accordingly, they do not typically form part of water assets available to be accessed and taken or delivered.

B128. The WASB also noted that the volume of future inflows of water was likely to depend on future climatic conditions. The WASB concluded that it would be appropriate to disclose information about the expected future inflows of water under a range of climatic conditions – such as extreme dry, dry, median and wet. It would also be appropriate to disclose information about any future water rights or future water commitments that may be affected by a variation in climatic conditions. The WASB concluded this would provide useful information about the degree of variability in the expected volumes of water assets of a water report entity.

B129. The WASB additionally concluded that in some circumstances it may be appropriate to disclose information that enables users to evaluate the extent to which water assets at the reporting date will be sufficient to meet future water commitments expected to be settled beyond 12 months of the reporting date. For example, this would be the case when the management of the water report entity is required to ensure the availability of water through multi-year droughts and the water report entity is currently experiencing such drought conditions.

#### **Water assets and water liabilities that fail the recognition criteria (paragraphs 150-151)**

B130. The WASB noted that there may be circumstances in which items meet the definitions of water assets and water liabilities, yet fail the relevant recognition criteria. The WASB considered whether these items should be included as additional categories of contingent water assets and contingent water liabilities; however WASB agreed that it would be misleading to do so. Instead, the WASB agreed that it would be useful to users to have information about these items disclosed separately in the notes.

#### **Water market activity (paragraphs 154-156)**

B131. It was acknowledged that there are three types of water market activity:

- a) trading between the water report entity and other external parties;
- b) trading between water entities within a group water report entity; and
- c) trading of rights or claims to water of the water report entity.

B132. It was agreed that the scope of the disclosure requirements for water market activity would be limited to trading of rights or claims to water of the water report entity.

#### **Water for environmental, social and cultural, and economic benefit (paragraphs 157-160)**

B133. The ED AWAS 1 requires information to be disclosed about how water assets of the water report entity have been used during the reporting period in the pursuit of:

- a) environmental benefit;
- b) social and cultural benefit; and
- c) economic benefit.

B134. The disclosure requirements relating to environmental benefit give effect to the provisions in the NWI that deal with environmental water accounting.

B135. The disclosure requirements relating to social and cultural benefit give effect to the provisions in the NWI that deal with indigenous access.

#### **Segment information (paragraphs 161-165)**

B136. Segment information aims to provide users with information about discrete components of a water report entity – relevant information that is not otherwise evident from a consolidated view of the water report entity.

- B137. As part of its deliberations about the usefulness of segment information in a water reporting context, the WASB acknowledged that a water report entity may comprise different or discrete activities or components. Information about those discrete components may not be evident from the water accounting statements. However, it was considered reasonable to expect that there may be users who would find information about those discrete components relevant in making decisions. On that basis, the WASB decided to include requirements for the provision of segment information.
- B138. The WASB also concluded that segments should be identified by considering the physical and administrative aspects of the water report entity. Water assets and water liabilities that are managed independently of other water assets and water liabilities would typically be identified as a segment. This could be due to the location of the water report entity's water assets and water liabilities. For example, different administrative arrangements (such as water resource management instruments) may apply to water assets and water liabilities in different locations. It may be appropriate to consider each location as a separate segment. Alternatively, water assets and water liabilities may be managed independently due to the nature of the water assets and water liabilities. For example, unregulated and regulated water assets may be subject to different water resource management instruments. The different instruments may require the water assets to be managed independently of each other. It may be appropriate to consider the water assets subject to the different instruments as being separate segments. The WASB concluded that providing information that is aligned with the way in which the water assets and water liabilities are managed would best align with the information needs of users.

### **Assurance Statement (paragraphs 167-169)**

- B139. The ED AWAS 1 requires an Assurance Statement to be provided in a general purpose water accounting report. An Assurance Statement is an explicit statement of whether the general purpose water accounting report is presented fairly in accordance with Australian Water Accounting Standards, and is provided by an appropriately qualified assurance provider independent of the water report entity and its management and governing body.
- B140. The assurance function, undertaken by an appropriately qualified and independent assurance provider, is important to enhancing users' confidence in the veracity of the information being presented to inform decision-making. For this reason the WASB decided to require an Assurance Statement in the ED AWAS 1. However, while the ED AWAS 1 requires an Assurance Statement to be provided, it does not prescribe:
- a) the level of assurance to be provided; or
  - b) the criteria against which an assurance provider's qualifications and independence should be assessed.
- B141. The ED AWAS 1 requires that general purpose water accounting reports must be audited. The WASB and the Auditing and Assurance Standards Board (AUASB) have agreed to work jointly on the development of an assurance standard for water accounting.





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