



# Qualitative Characteristics of General Purpose Water Accounting Reports

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Statement of Water Accounting Concept SWAC 3

## CITATION

1. This Statement may be cited as Statement of Water Accounting Concepts 3 *Qualitative Characteristics of General Purpose Water Accounting Reports* (SWAC 3).

## APPLICATION

2. The concepts in this Water Accounting Conceptual Framework (WACF) underpin general purpose water reporting. Unless regulation requires the adoption of the WACF, the concepts are not mandatory requirements for the preparation of general purpose water accounting reports (GPWAR).
3. The WACF applies to GPWAR issued after 11 May 2009.

## INTRODUCTION

4. The purpose of this Statement is to describe those qualitative characteristics of GPWAR that make the information contained therein useful for making and evaluating decisions about the allocation of resources.

## WATER ACCOUNTING CONCEPTS

5. The following concepts shall be interpreted in the context of all paragraphs included in this Statement.
6. Definitions, as outlined in the WACF Preface, shall be read as forming part of the accounting concepts set out in this statement.

### Concepts of the Qualitative Characteristics of General Purpose Water Accounting Reports

7. **In order for General Purpose Water Accounting Reports to satisfy their intended objective, the information contained in those reports shall possess qualitative characteristics, or attributes, that make the information useful to report users for making and evaluating resource allocation decisions.**
8. **The principal qualitative characteristics are relevance, faithful representation, comparability, verifiability, timeliness and understandability.**
9. **Information is relevant when it influences, or has the capacity to influence, the decisions of users about the allocation of resources.**
10. **Information is a faithful representation when the information depicting economic, environmental or social phenomena is complete, neutral and free from material error.**
11. **Information is comparable when report users are able to meaningfully compare the information in General Purpose Water Accounting Reports about different water reporting entities at the same point in time or for the same reporting period, or when users can meaningfully compare the information about the same water reporting entity over time.**
12. **Information is verifiable when users of General Purpose Water Accounting Reports can be assured that information faithfully represents the phenomena that it purports to represent.**
13. **Information is timely when it is available to users of General Purpose Water Accounting Reports before it loses its relevance for resource allocation decisions.**
14. **Information is understandable if users of General Purpose Water Accounting Reports can comprehend its meaning.**
15. **Providing information in General Purpose Water Accounting Reports that satisfies the objective of usefulness is subject to materiality and cost constraints.**

## DISCUSSION

### Qualitative Characteristics of General Purpose Water Accounting Reports

16. The qualitative characteristics are complementary concepts. Relevance and faithful representation are fundamental concepts when considering how qualitative characteristics affect the usefulness of information. When preparing GPWAR, relevance and faithful representation should be maximised to the extent possible.
17. Comparability, verifiability, timeliness and understandability are enhancing qualitative characteristics. Enhancing characteristics make information that is relevant and faithfully represented more useful. In practice, a balancing, or trade-off, between enhancing qualitative characteristics may be necessary. Generally, the aim is to achieve an appropriate balance among the characteristics in order to meet the objective of GPWAR. For example, to achieve timeliness in the reporting of water resources it may be necessary to sacrifice some degree of verifiability.

### Relevance

18. 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.
19. Information has predictive value if it has value as an input to predictive processes applied by users of GPWAR to form expectations about the future, for example, about future water stocks, flows and rights or claims to water. To have predictive value, information does not need to be a forecast but rather a useful input to the predictive processes of users.
20. Information about water assets and water liabilities and changes in those water assets and water liabilities during a reporting period can frequently be used as a basis for predicting the water reporting entity's future economic, environmental, or social resource position and performance in relation to water as well as other matters in which users are directly interested. Such matters may include, but are not limited to, dividend and security price movements which are affected by the management or governing body's compliance with those water rights or obligations which determine the ability of the water entity to meet its economic, environmental and social commitments as they fall due. The ability to make predictions from GPWAR is enhanced, however, by the manner in which information on past transactions, transformations and events is displayed. For example, the predictive value of statements is enhanced through the separate disclosure of unusual and infrequent items appearing in those statements, such as the water-related outcomes of extreme weather conditions that have occurred during the reporting period.
21. Information has confirmatory value if it confirms, or changes, past or present expectations. Information that confirms past expectations increases the likelihood that the outcomes or results will be as previously expected. Information that changes expectations, changes the perceived probabilities of possible outcomes. For example, information about the current level and structure of water holdings influences users' assessments of the probability that water rights or obligations will result in physical inflows or outflows of water.

22. The predictive and confirmatory roles of information are interrelated. For example, information about the current level and structure of water asset holdings and any water rights or obligations related to those holdings, is relevant to users when they endeavour to predict the extent to which additional water may be made available in response to adverse situations such as droughts. The same information plays a confirmatory role in relation to past predictions about, for example, the availability of water to drought stricken communities.

### Faithful Representation

23. An essential quality of GPWAR is that information contained in the reports faithfully represents the underlying data needed to serve the decision-making needs of users. Information is considered to be a faithful representation when it is complete, neutral and free from material error. Thus, for example, elements of a statement in GPWAR should represent faithfully the transactions, transformations and events that result in reported water assets, water liabilities and net water assets of the water reporting entity at the reporting date or for the reporting period.

### Complete

24. Information in GPWAR is complete if it includes all information that is necessary for faithful representation of the phenomena that it purports to represent. Information that is omitted or is false and misleading is not useful for users' decision making. For example, reporting the water asset holdings in the absence of reporting the rights or claims to the water holdings would be an omission that reduces the usefulness of the information.

### Neutral

25. Information in GPWAR is a faithful representation if it is neutral, that is, it is free from bias. GPWAR are not neutral if, by the selection or presentation of information, they influence the making of a decision or judgement by the users of those reports (for example, the management groups or governing bodies of water reporting entities or potential investors in water reporting entities) in order to achieve a predetermined result or outcome.

### Free from Material Error

26. Most information is subject to some risk of being less than a faithful representation of that which it purports to portray. Faithful representation does not mean that the information needs to be exact. Nor does it imply total freedom of error. The information presented in GPWAR is measured under conditions of uncertainty and thus absolute precision and freedom of error cannot be expected. There exist multiple acceptable approaches to quantifying different elements of GPWAR, and different approaches may require estimation rather than exact measurement. Accordingly, the amounts recognised in GPWAR are likely to vary according to the application of judgment about appropriate methods and estimates. Disclosures of the quantification issues may be required in such cases to render the information a faithful representation.
27. Information may sometimes be relevant but so unreliable in nature or representation that its recognition, quantification or disclosure may be potentially misleading. This may result in non-disclosure within GPWAR. In such cases, qualitative information by way of note disclosure may be appropriate.

## Comparability

28. An enhancing quality of the information provided in GPWAR is comparability. Decision making involves choosing between alternatives. Information about a water reporting entity is more useful if it can be compared with similar information about other water reporting entities or with similar information about the same entity for some other reporting period or some other point in time.
29. Users must be able to compare the GPWAR of a water reporting entity through time in order to identify trends. Users must also be able to compare the GPWAR of different water reporting entities in order to evaluate their relative positions and trends in relation to water resources.
30. An important implication of the qualitative characteristic of comparability is that users are informed of the water recognition and measurement accounting policies employed in the preparation of a GPWAR any changes in those policies and the effects of such changes. Users need to be able to identify differences between the water accounting policies for like water transactions, transformations and events used in relation to the same water reporting entity from period to period and by different water reporting entities. Compliance with Australian Water Accounting Standards (AWAS), including the disclosure of the water accounting policies used by the water reporting entity, helps to achieve comparability.
31. The need for comparability should not be confused with mere uniformity and should not become an impediment to the introduction of improved water accounting standards. It is not appropriate for the preparer of GPWAR to continue accounting in the same manner for a water transaction, transformation or event if the policy adopted is inconsistent with the qualitative characteristics of relevance and faithful representation. It is also inappropriate for preparers of GPWAR to leave water accounting policies unchanged when more relevant and faithfully representative alternatives exist.
32. Because users wish to compare a water reporting entity's economic, environmental social or physical water resource position and performance in relation to water over time, it is important that GPWAR include corresponding information for the preceding, corresponding or otherwise relevant periods.

## Verifiability

33. The usefulness of information provided in GPWAR is enhanced if it is verifiable. Verifiability helps assure users that the information contained in GPWAR faithfully represents what it purports to represent. Verifiability implies that different knowledgeable and independent observers could arrive at the general consensus that the information is represented without material error or bias, or that appropriate recognition or measurement principles have been applied without material error or bias.
34. Verification may be direct or indirect. Direct verification involves an amount or other representation itself being verified. For example, the existence of water rights or obligations appearing in a statement of GPWAR may be verified by accessing a register of water rights or obligations. Indirect verification involves checking the inputs and outputs associated with recognising or measuring information using the same convention or methodology. For example, recalculating the water reporting entity's estimate of ground water indirectly verifies an amount reported in the water reporting entity's GPWAR.

### Timeliness

35. The usefulness of information in GPWAR is enhanced if the information is timely. If there is undue delay in the reporting of information it may lose its relevance. Preparers of GPWAR may need to balance the merits of the provision of reliable and faithfully represented information with timely reporting.

### Understandability

36. The usefulness of information in GPWAR is enhanced if the information is understandable. For this purpose, users are assumed to have a reasonable knowledge of how water may be sourced, managed, shared and used. This includes having a general understanding of the economic, environmental and social impacts of the use and natural transformation of water. Users of GPWAR are also assumed to be willing to study the reported information with reasonable diligence.
37. Information about complex matters that should be included in the GPWAR because of its relevance to users' decision-making needs should not be excluded merely on the basis that it may be too difficult for some users to understand without assistance.

### Constraints on General Purpose Water Reporting

38. Providing information in GPWAR may be constrained by materiality and cost.

#### Materiality

39. Information is material if its omission or misstatement could influence the water-related decisions of users taken on the basis of the GPWAR. Materiality depends on the impact of the nature and amount (volume, value or other attribute) of the item or error, as judged in the particular circumstances of its omission or misstatement on decisions made on the basis of the GPWAR. It is not possible to specify a uniform quantitative threshold at which a particular type of water related information becomes material. Nevertheless, materiality must be taken into account because material omissions or misstatements will render the information incomplete, biased or not free from error.
40. In some cases, the nature of information alone is sufficient to determine its relevance. For example, environmental flows from a particular source may be small in magnitude but may be critical for maintaining ecosystem health and therefore information about such flows is relevant to decision makers. In other cases, both the nature and amount of an item are important, and this might include, for example, the water held in catchment dams. If the volume of farm dams within a particular area is small, the reporting of this information about the water reporting entity may not be relevant. However, in instances where farm dams capture a large portion of runoff, disclosure of this information may be relevant.

#### Cost

41. The balance between benefit and cost is a pervasive constraint. The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is, however, substantially a judgemental process with the assessment being more qualitative than quantitative, and often incomplete.
42. The benefits of providing information in GPWAR include better resource allocation decision making, and favourable effects on public relations. It may also facilitate better decisions by water managers if the provision of information for general- reporting purposes enhances the quality of information used internally.

43. The costs of preparing GPWAR include the costs of collecting, processing, verifying and disseminating the information contained therein. Users incur additional costs of analysis and interpretation.
44. The costs do not necessarily fall explicitly on those users who enjoy the benefits. Benefits may also be enjoyed by users other than those for whom the information is prepared; for example, the provision of further information to the community may reduce lobbying in relation to water pricing or distribution and thereby also reduce the attendant financial and non-financial costs. For these reasons, it is difficult to apply a cost-benefit test in any particular case. Nevertheless, water accounting standard-setters in particular, as well as the preparers and users of GPWAR, should be aware of this constraint. Water accounting standard setters should recognise explicitly the cost-benefit trade-off in developing water accounting standards.
45. In assessing accountability in relation to the decisions made by the management or governing body of a water reporting entity, the impact of cost on the information reported should be acknowledged. For example, with stream gauging the resource manager may be faced with the following trade-off:
  - a) install and maintain a relatively small number of gauges to a high standard, covering a small proportion of the catchment, reasoning that flows in the balance of the catchment can be estimated by hydrographic correlation techniques; or
  - b) install and maintain a larger number of gauges to a lower standard, but covering a higher proportion of the catchment.

In such instances, the relevance and faithful representation of the related information included in GPWAR must be carefully considered and communicated to report users.