



Recognition of the Elements of General Purpose Water Accounting Reports

Statement of Water Accounting Concept SWAC 5

CITATION

1. This Statement may be cited as Statement of Water Accounting Concepts 5 *Recognition of the Elements of General Purpose Water Accounting Reports* (SWAC 5).

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 specify the recognition criteria for the elements of GPWAR.
5. This Statement specifies the recognition criteria for elements of GPWAR, consistent with the objective of general purpose water accounting as outlined in SWAC 2 and also with the qualitative characteristics of information contained in the reports as set out in SWAC 3.

WATER ACCOUNTING CONCEPTS

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

Recognition of the Elements of General Purpose Water Accounting Reports

8. **Recognition is the process of recording elements of General Purpose Water Accounting Reports in statements within those General Purpose Water Accounting Reports.**
9. **An item that meets the definition of a water asset shall be recognised in a particular statement within the General Purpose Water Accounting Reports if:**
 - a) **it is probable that future benefits associated with the item will be derived by the individual or organisation that is a water reporting entity, or by a group of stakeholders of a physical water entity that is a water reporting entity; and**
 - b) **the item has an attribute that can be quantified with representational faithfulness; and**
 - c) **the attribute that can be quantified with representational faithfulness is the appropriate unit of account for the particular statement.**
10. **An item that meets the definition of a water liability shall be recognised in a particular statement within the General Purpose Water Accounting Report if:**
 - a) **it is probable that the obligation will result in a decrease in the water reporting entity's assets or an increase in another water liability when an obligation is discharged; and**
 - b) **the item has an attribute that can be quantified with representational faithfulness; and**

- c) the attribute that can be quantified with representational faithfulness is the appropriate unit of account for the particular statement.
11. An item that meets the definition of net water assets shall be recognised in a particular statement within the General Purpose Water Accounting Report if:
 - a) the water assets and water liabilities giving rise to the net water assets are recognised in the general purpose water accounting report; and
 - b) the item has an attribute that can be quantified with representational faithfulness; and
 - c) the attribute that can be quantified with representational faithfulness is the appropriate unit of account for the particular statement.
 12. An item that meets the definition of a change in a water asset or a change in a water liability shall be recognised in a particular statement within the General Purpose Water Accounting Report if:
 - a) it is probable that there has been a change in a water asset or a change in a water liability; and
 - b) the water asset or water liability that has increased or decreased is recognised in the General Purpose Water Accounting Reports; and
 - c) the change in the water asset or water liability has an attribute that can be quantified with representational faithfulness; and
 - d) the attribute that can be quantified with representational faithfulness is the appropriate unit of account for the particular statement.

DISCUSSION

The Probability of Future Benefit or Present Obligation

13. For the purpose of this Statement of Water Accounting Concepts, the notion of probability is used in the recognition criteria to refer to the degree of uncertainty that:
 - a) in the case of water assets, the future benefits associated with the item will be derived by the individual or organisation that is a water reporting entity, or by a group of stakeholders of a physical water entity that is a water reporting entity; and
 - b) in the case of water liabilities, the item will result in a decrease in the water reporting entity's assets or an increase in another water liability when an obligation is discharged; and
 - c) in the case of a change in a water asset or a change in a water liability, there has been a change in the underlying water asset or water liability.
14. If an outcome or occurrence is probable, it is more likely than not likely.
15. The notion of probability is in keeping with the uncertainty that characterises the environment in which water reporting entities operate. Assessments of the degree of uncertainty attaching to future benefits and present obligations are made on the basis of the evidence available when the GPWAR are prepared. For example, while water stored in a dam for irrigation purposes may normally meet the definition of a water asset, if that water becomes so saline or so contaminated that it is unfit for irrigation or alternative uses, it may be reasonable to assume that the water is unlikely to provide future benefits to either the water reporting entity (e.g. the organisation that manages the dam) or the stakeholders of a physical water entity that is a water reporting entity. In such cases, recognition of the water as a water asset is not appropriate.

16. In the case of a water liability, some claims or other rights against the water held by a water reporting entity may be unlikely to result in either a decrease in the water reporting entity's assets or an increase in another water liability. This could arise, for example, when a dam breaks and the water reporting entity managing the dam is unable to deliver water within the period for which the claims or other rights against the water are current, and the claim or right provides no recourse to water beyond that period. Another example arises where a customer has claims against the water held by a water reporting entity but the water reporting entity is unlikely to supply water to that customer because the customer has failed to pay fees for water access and is unlikely to do so. In such instances, if it is more unlikely than likely that there will be a decrease in the water reporting entity's water assets or an increase in another water liability when the obligation is discharged, a water liability should not be recognised.

Faithful Representation

17. A criterion for the recognition of an element of GPWAR is that it possesses an attribute that can be quantified with faithful representation. In many cases, the attribute must be estimated. The use of reasonable estimates is an essential part of the preparation of GPWAR and does not undermine their faithful representation. When, however, a reasonable estimate cannot be made, the item should not be recognised in a particular statement.
18. Elements of GPWAR that cannot be quantified directly may be estimated using various modelling techniques.
19. The representational faithfulness with which an element can be quantified is influenced by several factors, regardless of the quantification techniques used. For example, elements that can be quantified directly may be subject to measurement error due to:
 - a) the available technology and equipment used for quantification
 - b) limitations on the access to the water source for the purpose of data collection
 - c) the need for aggregation or disaggregation of data to obtain the information on the temporal or spatial scale required for reporting.
20. Similarly, in the case of elements that are quantified indirectly, models developed and used to quantify the elements may be poorly specified, thereby reducing the representational faithfulness of the quantification.
21. Factors such as those outlined in paragraphs 19 and 20 do not, of themselves, undermine the representational faithfulness of the information contained in GPWAR. Assessments of the representational faithfulness of elements disclosed in the reports are made on the basis of the evidence available when the GPWAR are prepared.
22. Consistent with SWAC 3, information has the quality of representational faithfulness when it is free from material error and bias and can be depended upon by users to represent all phenomena that it either purports to represent or could reasonably be expected to represent.
23. GPWAR should faithfully represent the transactions, transformations and other events that result in water assets, water liabilities, changes in water assets and changes in water liabilities that relate to the water reporting entity at the reporting date and that meet the recognition criteria.
24. In assessing whether the elements recognised in GPWAR faithfully represent the holdings, obligations, transactions, transformations and events intended, several factors should be considered. These factors include the temporal and spatial scales at which the information is to be recognised and the unit of account in which the relevant element

should be recognised. For example, some information such as river flows recognised in the reports may be best presented in small time-steps such as hours, days, or weeks, whereas other information, such as groundwater volume in undeveloped areas, may only need to be reported each calendar or water year and by region.

25. Most information reported in GPWAR is subject to some risk of being less than a faithful representation of the underlying substance. This is not due to bias, but rather to inherent difficulties either in identifying the transactions, transformations and other events to be quantified or in devising and applying measurement and presentation techniques that can convey messages that correspond with those transactions, transformations and events. In certain cases, the quantification of the effects of transactions, transformations and events could be so uncertain that they would not be recognised in the GPWAR. For example, it may be difficult to identify and quantify with confidence the amount of loss through seepage from a natural water source. In other cases, however, it may be appropriate to recognise such items and to disclose the risk of error surrounding their recognition and quantification.

Substance Over Form

26. If information is to faithfully represent the transactions, transformations and events that it purports to represent, it is necessary that those transactions, transformations and events are accounted for and presented in accordance with their substance and reality and not merely their legal form. The substance of transactions, transformations or events is not always consistent with their legal or contrived form. For example, the claim or other right to water may have no value because the water is unavailable and is unlikely to become available. In such circumstances, the reporting of a change in water assets would not faithfully represent the transaction entered into.

Neutrality

27. To be representationally faithful, the information contained in GPWAR must be neutral, that is, free from bias. The recognition of elements of GPWAR is not neutral if, by the selection or presentation of information, they influence the making of a decision or judgment in order to achieve a predetermined result or outcome.
28. The preparers of GPWAR must contend with the uncertainties that inevitably surround many transactions, transformations, events and circumstances. Water assets, water liabilities, changes in water assets and changes in water liabilities are recognised in the presence of such uncertainties by the disclosure of their nature and extent and by the exercise of prudence in the preparation of the GPWAR. Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that water assets and increases in water assets are not overstated and water liabilities and increases in water liabilities are not understated. However, the exercise of prudence does not allow, for example, the deliberate understatement of water assets and changes in water assets, or the deliberate overstatement of water liabilities and changes in water liabilities, because the GPWAR would not be neutral. In such cases, the reports would, therefore, not have the quality of representational faithfulness.

Where Recognition Criteria are not met

29. Where an item meets the definition of a water asset, water liability, or a change in water assets or a change in water liabilities but does not satisfy the recognition criteria, disclosure in the notes accompanying the GPWAR statements may be appropriate. Disclosure in the notes is appropriate if that disclosure will assist GPWAR users to make or evaluate decisions affecting the allocation of resources.