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The Chair
Auditing and Assurance Standards Board
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Our ref ED 01/19 comment submission
ASRE 2410
Contact Karen Tanner (+61 2 9335
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cc: enquiries@auasb.gov.au

28 August 2019

Dear Prof. Simnett

AUASB Exposure Draft (ED 01/19): Proposed Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Auditor of the Entity

We welcome the opportunity to comment on the proposed amendments to ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity* covered by Exposure Draft 01/19.

This letter represents the views of KPMG Australia (KPMG).

Overall, KPMG supports the AUASBs proposed limited scope amendments to ASRE 2410, with the primary purpose of achieving greater "communicative value" for users via format and content alignment of the auditor's review report with the auditor's report in the local Australian and New Zealand markets.

Appendix 1 includes our comments on the AUASBs Exposure Draft questions raised in ED 01/19. We further respond to the Addendum to Explanatory Memorandum for ED 01/19, issued by the AUASB in July 2019. Our responses to the questions raised in this Addendum are included in Appendix 2 to this letter.

We would be pleased to discuss our comments further with you. Please contact Karen Tanner via telephone on +61 2 9335 7290 or via email at: karentanner@kpmg.com.au.

Yours sincerely

Karen Tanner
Director - Department of Professional
Practice

Appendix 1 – KPMG comments on the Exposure Draft Questions

1. Do you agree with the scope and key proposals to incorporate the auditor's reporting requirements made to the auditor's report consistently into the auditor's review report?

We agree with the scope and key proposals to incorporate the relevant auditor's reporting requirements into the auditor's review report.

However, we wish to raise the following items to the AUASBs attention.

Global consistency: We consider global convergence of auditing standards, where possible, to be fundamentally important to achieving audit quality and consistency in global practice. We strongly encourage the AUASB to closely monitor updates in the IAASBs work plan, including international updates to the review suite of standards and any changes resulting from the IAASB's Auditor Reporting post implementation review, with the objective of global convergence/consistency.

Other review standards: We believe that the AUASB should consistently incorporate the relevant reporting changes, to the full suite of Australian review standards. We believe consistent application is necessary to avoid differential performance and reporting requirements for practitioners in applying the review standards. To illustrate this point, ASRE 2400.Aus87.1 requires the auditor to add an Emphasis of Matter paragraph to the assurance practitioner's report (to highlight a material uncertainty relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern) however proposed ASRE 2410 requires a "Material Uncertainty Related to Going Concern".

Application of Key Audit Matters (KAMs) to Review Reports: We agree with the AUASB that it is not an appropriate time to consider including KAMs in auditor's review reports. Further, the premise of a review engagement is a limited level of assurance and involves limited procedures such as analytical review and enquiry etc. To include "key audit/review matters" in a review report may imply that we had undertaken more test procedures, at a higher level of precision, and provided a greater level of assurance, than limited assurance is designed to give.

Other Information reporting requirements: We agree with the AUASB that it is not an appropriate time to consider including Other Information reporting requirements in auditor's review reports and that any further considerations should be made following the IAASB's Auditor Reporting post implementation review.

2. Do you agree with the proposed amendments to incorporate conforming amendments as a result of the IAASB's project regarding non-compliance with laws and regulation (NOCLAR)?

We agree with the proposed amendments to incorporate conforming amendments in the proposed ASRE 2410 as a result of the IAASB's (and IESBA's) projects regarding non-compliance with laws and regulations.

As discussed at 1) above, we believe the conforming amendments should be consistently applied to the full suite of Australian review standards and the IAASB suite of review standards to achieve consistency in global practice.

3. Do you agree with including reviews of financial reports prepared in accordance with a compliance framework explicitly in the scope of ASRE 2410?

In our experience, whilst rare, it is possible for financial reports to be prepared in accordance with a compliance framework and be subject to a review that meets the scope of ASRE 2410. Including for example,

- Interim Financial Reports prepared by a component of a Group for Group consolidation purposes;
- Completion Financial Reports prepared in accordance with a purchase/sale agreement between a buyer and seller;
- Financial Reports prepared in connection with a transaction, such as an Initial Public Offering;
- Other Financial Reports or complete sets of financial statements prepared in connection with other contracts, agreements or regulations.

In the absence of existing guidance, practitioners may have reverted to the requirements and guidance in other auditing standards, such as ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*, to appropriately deal with the form and content of the auditor's review report and conduct of the review.

To create consistency in practice and greater clarity for auditors, we therefore agree with including reviews of financial reports prepared in accordance with a compliance framework explicitly within the scope of proposed ASRE 2410.

We are also aware of other jurisdictions that include compliance frameworks within the scope of their equivalent standards, including the New Zealand's NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* and ISA 2410 *Review of Interim Financial Information performed by the Independent Auditor of the Entity*.

4. Do you agree with how the responsibilities of management for the financial report, and the auditor's responsibilities for the review of the financial report, are described in the auditor's review report?

We agree with how the responsibilities of auditors and management are described in the auditor's review report, including those relating to going concern.

We ask the AUASB to consider allowing auditors to refer to a description of the relevant auditors responsibilities on a website of an appropriate authority, such as the AUASB website, consistent with the requirements of ASA 700.

Refer to related comments on the specific questions raised in the Addendum to Explanatory Memorandum for ED 01/19 in Appendix 2 to this letter.

5. Do you consider that there are any further amendments required to be made to ASRE 2410?

NOCLAR

The NOCLAR related amendments in proposed ASRE 2410 do not appear to cover the extent of the auditors obligations covered in ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report* and where relevant, APES 110 *Code of Ethics for Professional Accountants* including:

- Communication with Respect to Groups (ASA 250.9(b))
- Documentation requirements (ASA 250.9(c) and ASA 250.30)

We observe that this could be addressed in a similar way to Proposed ASRE 2410.A36.

e.g. Auditors conducting a review engagement under this auditing standard are not required to comply with ASA 250. However, ASA 250 includes guidance which may be useful.

Other matters

We have included additional observations and considerations for the AUASB in Appendix 3 to this letter.

6. Do you agree with the proposed effective date? If not, please explain why not.

We support the proposed effective date of financial reporting periods commencing on or after 1 January 2020.

We observe however that the majority of reviews of half-year financial reports prepared in accordance with Division 2, Part 2M.3 of the *Corporations Act 2001* exhibit 31 December half-year period ends. Therefore, the proposed standard will not achieve its full impact in the Australian market until 31 December 2020. We ask the AUASB to

consider whether a proposed effective date of financial reporting periods ending on or after 31 December 2019 is more suitable to meet its objectives in amending the standard.

7. Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?

Other than the matters covered at 5) above, we believe applicable laws and regulations have been appropriately addressed in the proposed standard and that no references to relevant laws or regulations have been omitted.

8. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?

We do not believe any applicable laws or regulations prevent, impede or conflict with the proposed standard.

9. Are there any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?

Other than the matters covered at 1) above, we are not aware of any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may impact the application of, or conflict with, the proposed standard.

10. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of this proposed standard? If significant costs are expected, the AUASB would like to understand:

- a. **Where these costs are likely to occur;**
- b. **The estimate extent of costs in percentage terms (relative to audit fees); and**
- c. **Whether expected costs outweigh the benefits to the users of audit services?**

We do not expect significant incremental costs to the business community arising from changes to the proposed standard.

We would like to highlight the following additional costs we expect auditors to incur from compliance with the main changes to the requirements of this proposed standard.



These costs, whilst not significant, are a result of deviating from our global audit methodology and associated guidance and include: localisation of our audit platform for review engagements in accordance with proposed ASRE 2410, local methodology and guidance customisation, and updates to management representation letter templates and review report templates. These deviations may cause confusion for auditors when working as component engagement teams on global Group audits and will require customised local learning for our auditors. We do not expect these anticipated costs to outweigh the benefits to the users of audit services.

11. Are there any other significant public interest matters stakeholders wish to raise?

There are no other significant public interest matters that we wish to raise.

Appendix 2 – KPMG comments on the Addendum Questions

1. Do you agree that the review report should include a description of the responsibility for the auditor in respect of going concern?

We agree that the auditor's review report should include a description of the responsibility for the auditor in respect of going concern on the basis of:

- achieving greater "communicative value" for users via format and content alignment of the auditor's review report to the auditor's report;
- closing any perceived expectation gap for users related to the auditors responsibilities in respect of going concern between audit and review engagements; and
- corresponding with the responsibilities of management included in the auditor's review report as included in Proposed ASRE 2410.35(b).

2. Do you agree with how the auditor's responsibility has been described in ED 01/19? If so, why. If not, why not, with appropriate, specific reference to the NZAuASB suggested wording.

We agree with how the auditor's responsibility has been described in ED 01/19, which aligns to the relevant requirements of the auditor with respect to going concern under the proposed ASRE 2410 standard.

In contrast, the auditor's responsibility described in the NZAuASB suggested wording expands the auditor's obligations with respect to going concern for review engagements. Specifically, concluding on the appropriateness of management's use of the going concern basis of accounting, is greater than the requirement in Proposed ASRE 2410.19.

We consider it important for the AUASB to work with the NZAuASB to achieve convergence between Proposed ASRE 2410 and NZ SRE 2410.

We would like to highlight the undue prominence to the auditor's responsibilities with respect to going concern under Proposed ASRE 2410 review report in comparison to the overall length of the report. As outlined in section 4 above, we suggest the AuASB consider allowing auditors to refer to a description of the relevant auditors responsibilities on a website of an appropriate authority, such as the AUASB website, consistent with the requirements of ASA 700.



Appendix 3 – Additional observations and considerations related to ED 01/19 for consideration by the AUASB

Reference	Observation	Comments
General observation - Proposed ASRE 2410	Removal of “Independent” from the title of proposed ASRE 2410 and at various places throughout the proposed standard.	<ul style="list-style-type: none"> An auditor is required to be independent and therefore there is no perceived additional value from removing the word “Independent” from the proposed standard. The change is inconsistent with ISRE 2410 and naming of other Australian Auditing Standards e.g. ASA 200 <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards</i>.
ASRE 2400, including ASRE 2400.88	Requirements/guidance for auditors on special purpose frameworks and use of the special purpose EOM paragraph.	<ul style="list-style-type: none"> There is an opportunity to create clarity for auditors in ASRE 2410 related to review engagements on financial reports prepared in accordance with special purpose frameworks in particular with compliance frameworks now being considered within the scope of the standard.
Proposed ASRE 2410.23(f)	Uses inconsistent language with related ASA 250.17.	<ul style="list-style-type: none"> “identified” (ASRE 2410) vs. “known” (ASA 250).
Proposed ASRE 2410.33(d)	Inconsistent with related paragraph in ASA 700.24(d).	<ul style="list-style-type: none"> Inclusion of “and other explanatory information” in ASRE 2410.33(d) is inconsistent with ASA 700.24(d). We note, however, this is consistent with the definition of AASB 101.10(e).
Proposed ASRE 2410.33(e)(i)	Grammatical error	<ul style="list-style-type: none"> “become” should say “became”
Proposed ASRE 2410.A50	Reference to EOM paragraph in proposed ASRE 2410.A50 however could reasonably be an EOM or MURGC.	<ul style="list-style-type: none"> We consider the required edits as follows, <i>The auditor may have alerted users to the to the existence of a material uncertainty relating to an event or</i>



		<p>condition that casts significant doubt on the entity’s ability to continue as a going concern by adding an emphasis of matter paragraph or [Material Uncertainty Related to Going Concern] to a prior audit or auditor’s review report”</p>
<p>Proposed ASRE Example reports, “Report on the Financial Report” heading.</p>	<p>Missing footnote for “Report on the Financial Report”.</p>	<ul style="list-style-type: none"> Other auditing standards include a footnote for the appropriate use of this heading e.g. The sub-title Report on the [Half-Year] Financial Report is unnecessary in circumstances when the second sub-title —Report on Other Legal and Regulatory Requirements is not applicable.
<p>Proposed ASRE Example reports, under “Conclusion” heading.</p>	<p>Inconsistencies with ASA 700 and the requirements of Proposed ASRE 2410.</p>	<p><u>Inconsistencies with ASA 700:</u></p> <ul style="list-style-type: none"> Reference to the “Accompanying Financial Report” in ASA 700 is in the opinion rather than in the introductory sentence “We have audited the financial report. Proposed ASRE 2410 still references “We have reviewed the “accompanying” financial report. <p><u>Inconsistencies with proposed ASRE 2410</u></p> <ul style="list-style-type: none"> “Based on our review, which is not an audit” appears in the example reports but not included in the required elements of the auditor’s review report.
<p>Proposed ASRE Example reports, under “Basis for conclusion” heading.</p>	<p>Inconsistencies with ASA 700 and the requirements of Proposed ASRE 2410.</p>	<p><u>Inconsistencies with ASA 700:</u></p> <ul style="list-style-type: none"> Proposed ASRE 2410 refers to “the [auditor independence] requirements of the Accounting Professional and Ethical Standards Board’s APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the Financial Report in



		<p>Australia" whereas ASA 700 refers to "<u>the [ethical] requirements</u>".</p> <ul style="list-style-type: none">• No equivalent reference to "We believe that the [audit] evidence we have obtained is sufficient and appropriate to provide a basis for our opinion/[conclusion]." <p><u>Inconsistencies with proposed ASRE 2410</u></p> <p>Example reports B and E in Proposed ASRE 2410 incorrectly refer to "the auditor independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our <u>review</u> of the financial report in Australia."</p> <p>Proposed ASRE 2410.34(c) requires reference to "<u>the relevant ethical requirements relating to the <u>audit</u> of the annual financial report</u>".</p> <p>Title of "the Code" will change effective 1 January 2020 to "APES 110 Code of Ethics for Professional Accountants (including Independence Standards) supersedes the Code effective 1 January 2020". This should be reflected in the Example reports.</p>
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Reference to the Accounting Professional and Ethical Standards Board's "APES 110 Code of Ethics for Professional Accountants (the Code).