



Attachment to Board Meeting Summary Paper

Subject: ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner (Including the Review of a Financial Report of a Company Limited by Guarantee)*

Prepared by: AUASB Technical Group

Date: 12 April 2010

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**ATTACHMENT A**

**1. Issue**

In view of Treasury's intention for the reforms to be available for financial reports (of certain companies limited by guarantee) with 30 June 2010 year-ends, it is necessary for the revised review standard to be operative for the same reporting date.

Application of the revised standard, ASRE 2400, is not restricted to companies limited by guarantee reporting under the Act. Accordingly, at the date of this paper, there will be review engagements underway that are being conducted in accordance with the existing ASRE 2400. It would be inappropriate to set the operative date of the revised standard in such a way as to adversely impact the existing standard.

**Recommendation**

The operative date of the revised standard (other than for reviews of companies limited by guarantee) should be for financial reporting periods commencing on or after 1 July 2010, thereby providing a clean "cut-off" with the existing standard. However, in order to address the 30 June 2010 year-end issue brought about by the impending changes to the *Corporations Act 2001*, the operative date for reviews of companies limited by guarantee should be financial reporting periods ending on or after 30 June 2010.

In this way:

- reviews in progress may be continued under the existing ASRE 2400;
- new engagements for relevant companies limited by guarantee electing a review for y/e 30 June 2010 can be undertaken using the (new) revised standard ASRE 2400; and
- *all* review engagements for financial reporting periods commencing on or after 1 July 2010 (other than reviews under ASRE 2410) must be undertaken using the (new) revised standard ASRE 2400.

## 2. Issue

As agreed at the February 2010 meeting, the revision of ASRE 2400 to respond to the proposed law reforms has been based on the clarity version of ASRE 2410. As that standard applies to the *auditor* of the entity (and the entity is subject to an audit), it is premised on the practitioner's knowledge of the entity gained through compliance with the Auditing Standards, particularly *ASA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*. Further, it is premised on the practitioner being an auditor and therefore being experienced in auditing (and review) terminology, practice and compliance with assurance standards.

The proposed changes to the *Corporations Act 2001* do not specify a reviewer's qualifications other than to refer to membership of a Professional Accounting Body and the holding of a public practice certificate [see sec. 324BE of the Exposure Draft and sec. 2M.4.01A of the Corporations Amendment Regulations 2010]. Accordingly, a member in practice will be entitled to conduct reviews regardless of their experience in the area of assurance (reviews).

To base the revision of ASRE 2400 on ASRE 2410 assumes the reviewer is experienced in the terminology, practice and compliance with assurance standards. Accordingly, revised ASRE 2400 does *not* attempt to condense all the (relevant) "requirements" contained in the Auditing Standards into ASRE 2400 so that an inexperienced reviewer is provided with a comprehensive suite of requirements. To do so would move ASRE 2400 entirely away from conformity with the equivalent international standards, especially ISRE 2400.

To be selective in choosing requirements (from the clarity Auditing Standards) that are additional to those contained in ASRE 2410 would become an exercise in subjectivity and would ultimately result in the revised ASRE 2400 containing "higher" standards than ASRE 2410—an undesirable outcome.

### **Recommendation**

Make specific reference to "competence" by way of the requirement to comply with relevant ethical requirements. [See paragraph 9]

In this way, practitioners are directed to the professional and ethical requirements of the Accounting and Professional Ethics Standards Board that stipulate "competence" as a core concept in performing professional work.

## 3. Issue

It is inevitable that duly appointed *auditors* of companies limited by guarantee will be asked to conduct reviews where companies have elected to do so. In order to support Treasury's intention for the law reform to be available to companies for the upcoming year-end reporting (30 June 2010), and to avoid any delays through unintentional ambiguity and confusion with the applicability of ASRE 2400 versus ASRE 2410, the revised standard needs appropriate clarification of this likely issue.

### **Recommendation**

Approve draft paragraph 4 (and paragraph 4A) which directs the auditor to conduct a review under the revised ASRE 2400. Effectively, there will be a change in the terms of the engagement.

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#### 4. Issue

The existing standards, ASRE 2400 and ASRE 2410 provide requirements and guidance, in different forms, to *recently appointed* practitioners in the area of gaining an understanding of the entity. In the case of:

- ASRE 2400, guidance paragraph 25, which sets out additional procedures for a recently appointed practitioner, is linked to the overall requirements at paragraph 21 that apply to all assurance practitioners without distinguishing between ongoing practitioner and recently appointed practitioner.
- ASRE 2410, a recently appointed auditor is required to obtain an understanding of the entity and its environment, including its internal control, as it relates to preparation of *both* the annual and interim or other financial reports (Para: 14). Effectively, this moves the recently appointed auditor to comply with other Auditing Standards such as ASA 315.

As each of the above constructs is designed for the circumstances of the specific standards, they do not provide an adequate “requirement” for the revised ASRE 2400. Therefore it is considered necessary to introduce a “requirement” to revised ASRE 2400 which is not contained in the existing standard (only guidance is present).

#### Recommendation

Use the (requirement) text from the clarity version of ASRE 2410. Modify text to:

- remove reference to “audit”; and
- clarify that a recently appointed assurance practitioner is required to determine procedures to “enhance” their understanding. The existing guidance is sufficient but improved by repeated reference to the *predecessor* auditor.

Refer “requirement” at paragraph 16—initial text from ASRE 2410 shown as marked up, deletions shown as strike throughs and new (AUASB Technical Group) text show as shaded (yellow). Refer guidance at paragraph A13 (AUASB Technical Group) text shown as marked up.

#### 5. Issue

Appendix 6 contains a table and diagrams that explain how the suite of AUASB standards applies to review engagements. Such information is generic and does not have specific reference to ASRE 2400. Accordingly, it is considered inappropriate to include this general information in a legislative instrument. No such information is contained in ASRE 2410.

The AUASB web site includes: *Explanatory Guide to AUASB Standards Applicable to Review Engagements* published in August 2008, which provides a comprehensive guide to all the AUASB standards that apply to reviews.

#### Recommendation

Delete Appendix 6.

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## 6. Issue

Appendix 3 of ASRE 2410 comprises a preamble to the example review report on a half-year financial report (under the Act). The preamble provides a contextual framework by quoting selected sections of the Act, Accounting Standards and providing other information required by ASIC and the ASX.

At the time of this paper, it is unclear as to whether a similar preamble would be necessary to the example report on a company limited by guarantee. Additionally, it is not clear as to whether the Exposure Draft should include the example 1 in Appendix 5 (drafting unfinished). On the one hand it provides an idea of what a review report *might* look like, but may be misleading if the final report differs significantly from this first draft (unlikely).

### **Recommendation**

Leave the example report in the Exposure Draft with a warning that it may change. See boxed AUASB Information Note appearing in a box immediately before example report number 1.