

The Chairman
Auditing and Assurance Standards Board
PO Box 204
Collins Street West
MELBOURNE VIC 8007

29 May 2008

Dear Ms Kelsall

Exposure Drafts ED 2/08 Proposed Standard on Review Engagements ASRE 2400 *Reviews of Financial Reports Performed by an Assurance Practitioner Who is not the Auditor of the Entity* and ED 3/08 Proposed Standard on Review Engagements ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*

Ernst & Young Australia is pleased to comment on the above-referenced proposed standards. We welcome the opportunity to contribute to the continued improvement of the Australian assurance standards that will drive the quality and consistency on audits in Australia. On the whole, we are supportive of the Proposed Standards on Review Engagements ASRE 2400 *Reviews of Financial Reports Performed by an Assurance Practitioner Who is not the Auditor of the Entity* (ASRE 2400) and ASRE 2405 *Review of Historical Financial Information Other than a Financial Report* (ASRE 2405).

We acknowledge that several of our comments raised in our response to ED 4/07 (dated 31 October 2007) have been addressed by the splitting of the previously proposed single standard into two separate standards, however we believe that the fundamental issues we raised in the covering letter to our response, have not yet been addressed.

Firstly, when there has been no previous audit performed, or where the assurance provider engaged is not the independent auditor of the entity, the assurance provider has no base position as a reference for their review procedures. ASRE 2400 appears to repeat the requirements set out in ASRE 2410 (when the assurance provider is also the independent auditor). We believe that ASRE 2400 would be greatly improved if it removed the repeat requirements of ASRE 2410, and simply referred to ASRE 2410 for the required procedures. ASRE 2400 should then be written to focus on just the additional or different requirements and considerations which are unique to a review when the assurance provider is not the independent auditor of the entity. For example, it could focus on issues such as engagement acceptance (should the engagement be accepted given the increased risk due to the lack of prior audit knowledge of the client?), materiality, and increased procedures to consider in order to ensure the opening position of balances is correct.

Secondly, when the assurance practitioner is not also the independent auditor of the entity, we believe they need to ensure that their level of comfort over opening positions, and their understanding of the client's business, needs to be to a level at least equivalent to that which the auditor of the entity would ordinarily have. We believe that this should be an explicit requirement of ASRE 2400, as well as for ASRE 2405 when the reviewer engaged is not also the independent auditor of the entity.

Thirdly, we believe that it is important that assurance providers performing reviews should have access to audit working papers in order to perform their review procedures appropriately. This review standard should allow the assurance provider access to the working papers in a similar (and explicit fashion) as is allowed for by AGS 1038 Access to Audit Working Papers.

With regards to ASRE 2405, we believe that this standard should explicitly state that it is not intended to capture any Practitioners ordinarily providing internal audit advice, taxation advice or transaction specific advice. Engagements performed under ASRE 2405 will be either for internal purposes within an entity or as a report to an external or third party. Currently, it could be interpreted from paragraph 4 that a Practitioner providing internal recipients with advice or comfort on a topic, may inadvertently be captured by ASRE 2405 as they may be part of an organisation providing assurance services, or may be assumed to provide assurance-like advice. We do not believe this was the intention of the standard setters and recommend that it is explicitly stated that providers of advice and comfort internally to an entity are not captured by this standard (for example tax advisors).

Finally, Appendix 4 to ASRE 2405 should be removed and instead reference made back to the appendix in ASRE 2410 for the procedures to consider performing, where appropriate. It is not relevant for the types of engagements performed under this standard to have such a detailed appendix repeated from ASRE 2410 when engagements performed under ASRE 2405 will not involve reviewing a financial report (which is how these procedures have been drafted). Also, we strongly encourage the AUASB to provide an example review report in Appendix 5 for an engagement reviewing compliance with the terms of a contract, as this is one of the most common engagement types likely to be performed under ASRE 2405.

In response to the specific questions that the AUASB has requested a response on, we do not believe there are any additional significant costs to the assurance service providers or the business community for compliance with the proposed changes. Also, we do not believe there are any significant public interest matters that we wish to raise at this time.

Please note, we have not repeated any of the detailed comments from our response to ED 4.07, and instead, have provided you with our two key concerns for your consideration. Should you require our more detailed comments, please contact Chris Westworth (02 9248 4816) or Fiona Campbell (03 9288 8516).

Yours sincerely



Ernst & Young



Chris Westworth
Professional Practice Director - Oceania Region