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Explanatory Guide to AUASB Standards Applicable to Review Engagements

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Auditing and Assurance Standards Board

Explanatory Guide to AUASB Standards Applicable to Review Engagements

The AUASB formulates *Explanatory Guide to AUASB Standards Applicable to Review Engagements* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*. This explanatory guidance does not itself establish or extend mandatory requirements or the assurance practitioner's obligations for the performance of audit, review, assurance or related service engagements under the AUASB Standards. Accordingly, the AUASB has not issued this Explanatory Guide for the purposes of the *Corporations Act 2001*.

This Explanatory Guide should be read in conjunction with ASA 100 *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the Standards on Review Engagements are to be understood, interpreted and applied.

This Explanatory Guide is not an AUASB Guidance Statement (GS) that provides guidance to assist auditors and assurance partitioners to fulfil the objectives of the audit or assurance engagement.

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Purpose

The purpose of this explanatory guide is to provide information on the use of Auditing and Assurance Standards Board (AUASB) Standards to auditors and assurance practitioners undertaking review engagements.

Introduction

With the issuance of ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is not the Auditor of the Entity* and ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*, the AUASB has completed its revision of the suite of Standards relating to review engagements of historical financial information.

In October 1991, the former Auditing & Assurance Standards Board of the Australian Accounting Research Foundation issued AUS 902 *Review of Financial Reports*. This Standard had very broad application covering reviews of (i) financial information, both historical and prospective; and (ii) non-financial information. With the normal development of standards, a number of new Standards that apply to review engagements have been, or are in the process of being, issued overseas and in Australia. Consequently, AUS 902 has become superseded, and the AUASB has replaced it with a series of Standards that apply to specific types of review engagements.

Background

AUS 902

AUS 902 was released in October 1995 and was operative for reporting periods commencing on or after 1 July 1996. The Standard was directed towards the review of financial reports. However, it could also be applied, to the extent practicable, to engagements to review financial or other information (such as reports on internal control). Furthermore, AUS 902 was to be read in conjunction with AUS 106 *Explanatory Framework for Standards on Audit and Audit Related Services*.

An important feature of AUS 902 was that mandatory Requirement paragraph .05 stated “***The auditor should conduct a review in accordance with Australian Auditing Standards applicable to review engagements***”. The accompanying guidance described the AUSs as being mostly written in the context of audits, however, they are “to be applied and adapted as necessary to review engagements”.

OTHER PRONOUNCEMENTS

- In April 2006, the AUASB issued ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*. This Standard is part of the suite of Auditing Standards made under section 336 of the *Corporations Act 2001* (the Act).
- In June 2007, the AUASB issued the non-mandatory Pronouncement, *Framework for Assurance Engagements*, which provides the assurance practitioner with an explanation of the overall context for how to apply Standards on Review Engagements (ASREs) and Standards on Assurance Engagements (SAEs). The *Framework for Assurance Engagements* also defines and describes the

elements and objectives of an assurance engagement, including the concepts of reasonable assurance and limited assurance. “Reasonable assurance” is defined as high, but not absolute, level of assurance, and is the basis for a positive form of the assurance practitioner’s expression. “Limited assurance” engagements provide a lower level of assurance and are the basis for a negative form of the assurance practitioner’s expression. Review engagements, by nature, are limited assurance engagements.

- In July 2007, the AUASB issued ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. This Standard is not part of the Auditing Standards made under the Act. Inter alia, it is to be applied in the review of prospective financial information. AUS 804 *The Audit of Prospective Financial Information* establishes requirements and guidance in relation to audits of prospective financial information. For review engagements, AUS 804 refers to AUS 902.
- In June 2008, the AUASB issued Standard on Assurance Engagements ASAE 3100 *Compliance Engagements*. The Standard has been developed as an adjunct Standard to ASAE 3000. The Standard applies to review engagements as well as to audit engagements.
- In July 2008, the AUASB issued Standard on Assurance Engagements ASAE 3500 *Performance Engagements*. The Standard is a composite revision of both AUS 806 *Performance Auditing* and AUS 808 *Planning Performance Audits*. The Standard applies to performance reviews and performance audits.

INTERNATIONAL AUDITING AND ASSURANCE
STANDARDS BOARD (IAASB)

In December 2007, the IAASB approved changes to the application of ISRE 2400 *Engagements to Review Financial Statements* and ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. The changes were made effective for financial reporting periods commencing on or after 1 January 2008.

When the IAASB originally issued ISRE 2410, the intention was for that Standard to be used only by the auditor of the entity. This was in recognition that the auditor's knowledge of the entity's business differs from that of an assurance practitioner, who does not initially have the same level of knowledge of the business as the auditor of the entity. The amendments made by the IAASB in December 2007 were to enable ISRE 2410 to be used, by the auditor of the entity, for reviews of historical financial information for periods other than interim periods. ISRE 2400 is to be used by assurance practitioners who are *not* the auditor of the entity.

Situation

With the issuance of ASRE 2410, ASAE 3000, ASAE 3100 and ASAE 3500, and the recent changes to ISRE 2400 and ISRE 2410, AUS 902 has become outdated. Accordingly, it has become necessary to:

- develop Standards to address review engagements not covered by ASRE 2410, ASAE 3000, ASAE 3100 and ASAE 3500;
- make appropriate amendments to ASRE 2410 in response to the IAASB changes; and

- withdraw AUS 902.

The Approach

ASRE 2410

To align with the ISREs, the AUASB has amended ASRE 2410 so that the Standard is to be applied by the auditor of the entity in the review of a financial report for *any* period. Previously, the Standard was applicable only to the review of a financial report for an interim period. Furthermore, the AUASB has amended the Standard to include guidance on the composition of a “financial report” and on the intended financial reporting framework. The AUASB considers these changes to ASRE 2410 as necessary because the AUASB supports the IAASB’s intention for ISRE 2410 to be used for financial report reviews conducted only by the auditor of the entity. The IAASB’s changes acknowledge that the auditor’s knowledge of the business, gained through conducting an audit in compliance with Auditing Standards, differs from an assurance practitioner who does not initially have the same level of knowledge of the business as the auditor of the entity. The changes also mean that an auditor conducting a review of a financial report for a period equal to or greater than 12 months will in future, use ASRE 2410 instead of AUS 902.

ASRE 2400

The AUASB has developed a new Standard for use by an assurance practitioner who is not the auditor of the entity. In this regard, the Standard conforms with ISRE 2400. The Requirements and Explanatory Guidance are designed to ensure that the same objective and level of assurance as ASRE 2410 are achieved by the assurance practitioner who does not initially have the same level of knowledge of the business as the auditor.

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ASRE 2400 is directed towards the review of a financial report comprising historical financial information.

Reviews of financial reports by assurance practitioners, who are not the auditor of the entity, are reviews that are not required by the Act. Accordingly, it is necessary to address these types of review in a Standard other than ASRE 2410 (which is the Standard applicable under the Act).

The AUASB is of the view that Standards applicable to the review of a financial report should consist of similar mandatory Requirements regardless of whether the review is performed by the auditor of the entity, or an assurance practitioner who is not the auditor of the entity. As the objectives, procedures and level of assurance are the same, so too should be the form and content of the Standards. Accordingly, ASRE 2400 has been developed using ASRE 2410 as the base Standard.

To mirror the changes to ASRE 2410, ASRE 2400 covers the review of a financial report for *any* period and includes guidance on the composition of a financial report and the intended financial reporting framework.

ASRE 2405

To complete the suite of Standards applicable to review engagements of historical financial information, the remaining area to be addressed is the review of historical financial information that is not in the form of a financial report prepared in accordance with a financial reporting framework designed for fair presentation (covered by ASRE 2400 and ASRE 2410). Examples of such financial information include a single financial statement, such as a Balance Sheet; a listing of accounts receivable; other information derived from financial records; and financial statements prepared in accordance with a reporting framework that is not designed for fair presentation

(e.g. condensed financial statements and internal management accounts). The AUASB is of the view that due to the nature of these engagements, the Requirements applicable to them differ from those necessary for the review of a financial report. Accordingly, the AUASB has decided a separate Standard is more appropriate than ASRE 2410 being adapted by the auditor for this purpose. Furthermore, the AUASB acknowledges these types of review engagements are unlikely, if ever, to be required by legislation or regulation. ASRE 2405 has been developed by the AUASB using AUS 902 as the base Standard.

Reporting Format Types

The terms of the review engagement will stipulate the nature and reporting requirements of the review. Accordingly, the auditor or assurance practitioner will plan and perform the engagement so as to provide a report that concludes using either of the following format types:

- a. “Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the [name of report or historical financial information] of [name of entity] [as at date or for the period ended] is not prepared, in all material respects, in accordance with [applicable criteria] used.

or

- b. “Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the [name of report or historical financial information] of [name of entity] [as at date or for the period ended] does not present fairly, in all material respects, in accordance with [applicable criteria] used.

Obligations

An auditor's obligations under ASRE 2410 or ASRE 2405, and an assurance practitioner's obligations under ASRE 2400 or ASRE 2405 are not less than their obligations were under AUS 902.

Tables and Diagrams

To provide a summarised view of the Standards described above, the Tables and Diagrams on the following pages present key application information for each Standard. The information is arranged so as to clearly identify the two categories of AUASB Standards that apply to review engagements, namely:

- tables A, B, C: Standards on Review Engagements (ASREs).
These Standards apply **only** to engagements to review historical financial information—ASRE 2400, ASRE 2405 and ASRE 2410; and
- tables D, E, F: Standards on Assurance Engagements (ASAEs).
These Standards apply to audit or review engagements not covered by the Auditing Standards (ASAs) or ASREs and include reviews of information other than historical financial information—ASAE 3000, ASAE 3100 and ASAE 3500.

Standards on Review Engagements (ASREs): applicable only to reviews of historical financial information.

Table A

| ASRE 2400 Review of a Financial Report Performed by an Assurance Practitioner Who is not the Auditor of the Entity | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Application | Criteria |
| <ul style="list-style-type: none"> Review of a financial report comprising historical financial information, performed by an assurance practitioner who is not the auditor of the entity. | <ul style="list-style-type: none"> The assurance practitioner must <i>not</i> be the auditor of the entity; Must be a financial report comprising historical financial information; <i>and</i> The financial report may be for any period. |

Table B

| ASRE 2405 Review of Historical Financial Information Other than a Financial Report | |
|------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Application | Criteria |
| <ul style="list-style-type: none"> Review of historical financial information, other than a financial report. | <ul style="list-style-type: none"> Used by an auditor of the entity or assurance practitioner who is not the auditor of the entity; Financial information is not in the form of a financial report; <i>and</i> Financial information must be historical. |

Table C

| ASRE 2410 <i>Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity</i> | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Application | Criteria |
| <ul style="list-style-type: none">• Review, by the independent auditor of the entity, of a financial report for a half-year in accordance with Part 2M.3 of the <i>Corporations Act 2001</i>; or• Review, by the independent auditor of the entity, of a financial report, comprising historical financial information, for any other purpose. | <ul style="list-style-type: none">• Used only by the auditor of the entity;• Must be a financial report, comprising historical financial information; <i>and</i>• The financial report may be for any period. |

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Australian Standards on Assurance Engagements (ASAEs): applicable to engagements other than engagements covered by the ASAs or ASREs.

Table D

| ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information | |
|-------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Application | Criteria |
| <ul style="list-style-type: none">• Assurance engagements other than audits or reviews of historical financial information. | <ul style="list-style-type: none">• Used by an auditor of the entity or an assurance practitioner who is not the auditor of the entity.• General application to assurance engagements other than audits or reviews of historical financial information covered by ASAs or ASREs.• If the subject of the engagement is financial information, the financial information must not be historical.• Applies to reviews of prospective financial information. |

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Table E

| ASAE 3100 <i>Compliance Engagements</i> | |
|---------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Application | Criteria |
| <ul style="list-style-type: none">• Compliance Engagements. | <ul style="list-style-type: none">• Used by the auditor of the entity or an assurance practitioner who is not the auditor of the entity; and• Provide assurance on an entity's compliance with internally or externally imposed requirements as measured by the suitable criteria. |

Table F

| ASAE 3500 <i>Performance Engagements</i> | |
|----------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Application | Criteria |
| <ul style="list-style-type: none">• Performance Engagements. | <ul style="list-style-type: none">• Used by the auditor of the entity or an assurance practitioner who is not the auditor of the entity; and• Reasonable and acceptable standards of performance against which the extent of economy, efficiency or effectiveness of an activity may be assessed. |

Diagram 1

Review Standards applicable to Reviews of Financial Reports (comprising historical financial information), and other Historical Financial Information.

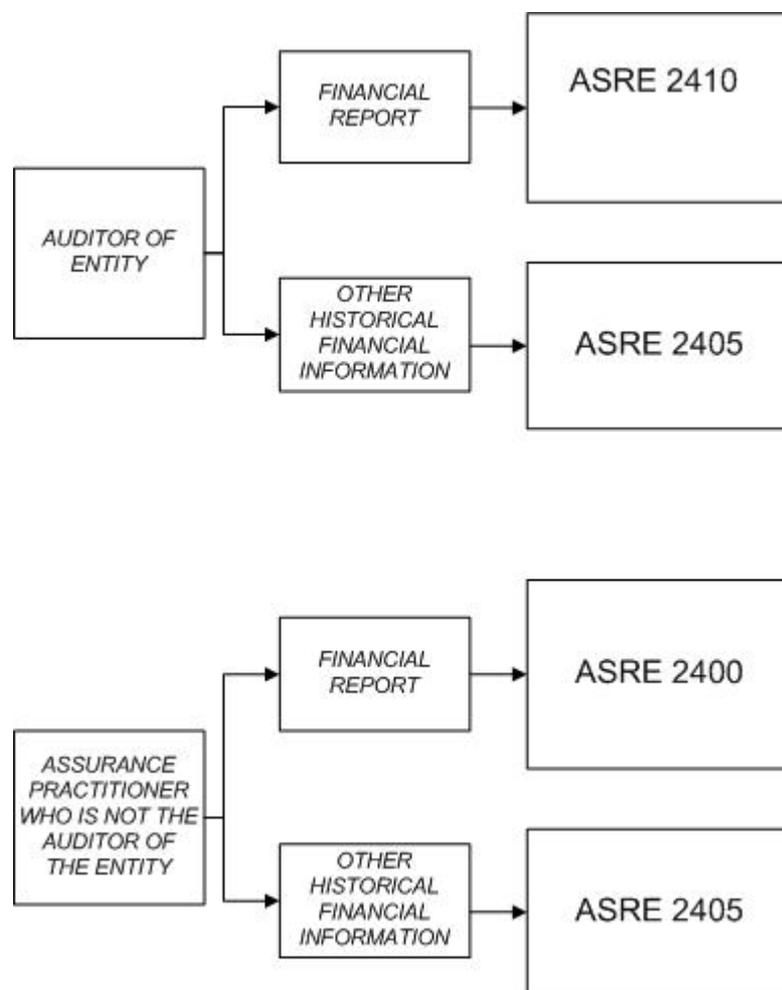
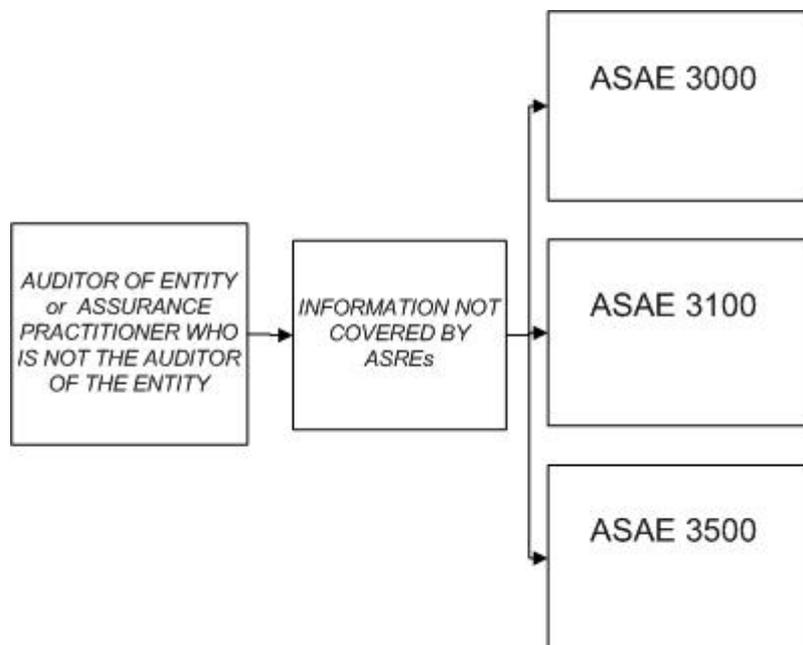


Diagram 2

Standards applicable to Review Engagements, not covered by ASREs.



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This explanatory guide should be read in conjunction with:

- the AUASB pronouncements outlined in this explanatory guide; and
- *ASA 100 Preamble to AUASB Standards.*
