



Attachment to Board Meeting Summary Paper

Subject: Review Standard for Companies Limited by Guarantee – Corporate Law Reform Bill

Prepared by: AUASB Technical Group

Date: 17 February 2010

ATTACHMENT A

INTRODUCTION

As a result of the proposed reforms to the *Corporations Act 2001*, it is necessary for the AUASB to prepare to issue a Standard on Review Engagements that will be a legislative instrument appropriate for the review of companies limited by guarantee. Background information on the reforms is found at agenda item 12(a).

Treasury have indicated the minister's request for the reforms to be operative for financial reporting in the current financial year [i.e. to 30 June 2010]. Accordingly, the AUASB needs to develop a review standard immediately but issuance of such standard will be conditional on the passing of the legislative reforms.

As the AUASB submission [see agenda item 12(a)] indicates, existing review standards ASRE 2405 and ASRE 2410 are inappropriate for the reviews contemplated by the law reforms.

The Board is requested to consider the issues listed in the following table and provide input to the development of an appropriate review standard. At this very early stage, the list of issues and comments is a work-in-progress and should not be considered exhaustive nor a capture of all relevant details.

There is an IAASB task force currently working on reviews and compilations. ISRE 2400 is a dated pronouncement (first issued in the mid 1990s with only minor amendments since). There is no certainty regarding the completion time of the task force's work. In view of this uncertainty, it appears that the AUASB will have to issue a review standard to address the proposed legislative changes prior to the IAASB project completion.

The Board is also requested to consider and decide on the timeline options provided.

ISSUES

#	Issue	Comments
1	Should ASRE 2400 be revised or should an entirely new standard be developed specifically for the Act?	<p>(a) Revision of ASRE 2400 will result in increased requirements for practitioners conducting reviews other than under the Act. For example, new requirements regarding preconditions for a review—determining the acceptability of the financial reporting framework and obtaining agreement from management on its responsibilities.</p> <p>(b) An entirely new standard is likely to have different requirements to pre-existing ASRE 2400/2410. This raises the question of why a review under the Act should be any different to a review that is not under the Act.</p> <p>(c) ASRE 2400 is already significantly different to ISRE 2400. See conformity paragraphs.</p> <p>Suggestion: Revision of ASRE 2400 is the best alternative</p>
<p>The following issues are listed on the assumption that ASRE 2400 will be revised</p>		
2	Minimal changes were made to ASRE 2410 under the clarity project. Should the new review standard mirror the revised ASRE 2410 as far as possible?	<p>Suggestion: Yes</p> <p>Examples of conforming changes:</p> <p>(a) ASRE 2400 would need to be rearranged in clarity format</p> <p>(b) References to ethics will need to be amended</p> <p>New references to ASQC 1 added.</p>
3	Application clause will need revising	<p>(a) Need construction as in the Auditing Standards (reference to the Act etc.)</p> <p>(b) Current application is for practitioners who are <i>not</i> the auditor of the entity. Will need to consider whether this wording is problematic.</p> <p>Examples:</p> <p>(i) in the change over period (30 June) the existing <i>auditor</i> will, most likely, conduct the review; and</p> <p>(ii) are there instances where a company limited by guarantee is part of a group and the <i>auditor</i> of the group is asked to conduct the review of the company?</p>
4	Operative date	<p>Suggestion: 1 July 2010 [dependent on Parliament passing law reforms]</p>

This document contains preliminary views and/or staff recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

5	Changes to requirements to align with ASRE 2410	<p>(a) Pre-conditions for a review</p> <p>(b) Significant uncertainty, other than a going concern problem - practitioner to <i>consider</i> including an emphasis of matter paragraph whereas <i>must</i> include an emphasis of matter under pre-existing standard.</p>
6	Risk assessment and understanding the business	<p>ASRE 2410 refers to ASA 315 (an Auditing Standard), whereas ASRE 2400 does not. ASRE 2410 is premised on the fact that an auditor has obtained an understanding of the business and has assessed risks through the (previous) conduct of the audit. Provision is made for recently appointed auditors.</p> <p>A thorough review of this area will be necessary with likely changes to ASRE 2400.</p>
7	Changes to Appendices	<p>(a) Example engagement letter</p> <p>(b) Example management representation letter</p> <p>(c) Analytical and other procedures (include guidance on checking compliance with the (new) Act.)</p> <p>(d) Example review reports:</p> <ul style="list-style-type: none"> (i) Change wording in exiting reports (e.g. responsibility for internal controls); and (ii) Create at least 1 new report applicable to the new Act <p>(e) Likely changes to tables and diagrams in existing Appendix 6</p>
8	Other changes and requirements	<p>(a) Changes to Preface</p> <p>(b) Authority Statement</p> <p>(c) Conformity paragraphs</p> <p>(d) Regulatory impact assessment</p> <p>(e) Explanatory Statement (legislative instrument)</p> <p>(f) Will need to amend the <i>Explanatory Guide: Auditor's Reports</i> (2/10)</p>

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TIMELINE

The following options are based on the assumption that Treasury’s plan for the reforms to be in place for financial reporting periods ending 30 June 2010 does eventuate and does not comprise substantive changes from the proposed reforms detailed in the Exposure Draft.

#	Activity	Option 1	Option 2
1	Commence deliberations	22 Feb	22 Feb
2	AUASB Technical Group commence drafting	23 Feb	23 Feb
3	Board members provide initial input	5 Mar	12 Mar
4	1 st draft provided to Board members	26 Mar	9 April
5	Board members provide input on 1 st draft	2 April	19 April
6	2 nd draft provided to Board members for approval to issue Exposure Draft	14 April	30 April
7	Board approves issue of ED	19 April	12 May
8	Exposure period ends	24 May	25 June
9	Draft standard including relevant constituent comments to Board for approval to issue standard Including Explanatory Statement & Regulatory Impact Assessment	2 June	15 July
10	Approval to issue standard	7 June	26 July
11	Final Board-requested changes and issue standard	14 June	2 Aug
12	Legislative lodgement process	14 June	2 Aug

Shaded areas indicate Board meetings

Notes:

1. In addition, appropriate communications will be necessary to alert constituents that the AUASB is developing/revising a standard to address the new corporate law reforms.
2. Regardless of the AUASB’s timeframe, issuance of the new/revised review standard will be subject to checking against the final, approved reform legislation.

Suggestion: Option 1 should be adopted.

[If the standard is complete but awaiting final reform legislation to be passed, it can be “cleared for final approval” in much the same way as was done in the clarity project. In this way, constituents will be aware of the Board’s intentions regarding the standard.]

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