



Attachment to AUASB Board Meeting Summary Paper

AGENDA ITEM NO.	7.1
Meeting Date:	26 November 2012
Subject:	Proposed EXPOSURE DRAFTS ED 03/12: ASRE 2400; and ED 04/12: ASRE 2415
Date Prepared:	24 October 2012

The AUASB is requested to consider and decide upon the following matters in relation to proposed Exposure Drafts **03/12** and **04/12**.

ED 03/12:

Standard on Review Engagements ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity* (Re-issuance of ASRE 2400)

1. Does the Board:
 - (a) Agree that the proposed substantive amendments to ISRE 2400 as shown in the Exposure Draft (ED) meet the “compelling reasons” test (**see comments at Note 1 below**);
 - (b) Approve the substantive amendments as marked up (with an arrow in the right-hand margin) in Agenda Item 7.3?
2. Does the Board agree with, and approve:
 - (a) The proposed operative date and early adoption being permitted; and
 - (b) The proposed editorial amendments as shown in the ED?
3. Does the Board agree with, and approve, the approach taken with the terms “financial report” and “financial statements”?
 - The title of the proposed standard remains the same as the existing ASRE 2400 and uses the term “financial report”, the definition of which is included in the AUASB Glossary.
 - Application paragraph Aus 0.1 includes both “a financial report” and “a complete set of financial statements” which is consistent with other AUASB standards - the latter term is also defined in the AUASB Glossary.
 - All other references in ASRE 2400 to “financial statements” remain unchanged in order to minimise changes to ISRE 2400. There appears little risk that users will misunderstand the use of both terms within the (proposed) standard.

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4. Paragraph A15 states the following:

“The APESB Code establishes the fundamental principles of professional ethics assurance practitioners must comply with...”

As ASRE 2400 is not a legislative instrument, there does not appear to be an issue with the word “must”. The requirement to which this guidance is attached compels the assurance practitioner to “comply with relevant ethical requirements” and the AUASB footnote refers to ASA 102.

Ordinarily, AUASB standards do not include the word “must” in guidance. An alternative for ASRE 2400 is to delete the word – Para. A15 would read:

“The APESB Code establishes the fundamental principles of professional ethics assurance practitioners ~~must~~ comply with...”

For conformity purposes, does the Board agree with leaving the word “must” in the application material?

5. With the exception of paragraph **Aus A5.1**, does the Board agree that no new Application and Other Explanatory Material paragraphs are necessary for the proposed substantive changes (marked up with an arrow in the right-hand margin) on the basis that they are self-explanatory? Refer proposed amendments to paragraphs:

Aus 0.1; Aus 0.2; 3; 17(g); 17(i); 21; 46 Aus (e); Aus 53.1; Aus 53.2; 86(h) (ii); and Aus 87.1.

6. Does the Board agree with and approve:

- (a) The *commentary* for each and every entry in the Table of Differences attached to the end of the exposure draft?
- (b) The Note included at the end of the Table of Differences that highlights material in the existing ASRE 2400 that has *not* been transferred across into the revised standard?

7. Does the Board agree with the exposure period from early – mid December 2012 to 8 February 2013 (> 60 days)?

By using the 8 February 2013, the AUASB Technical staff plan to present the final proposed standard for either approval, or preliminary approval, at the AUASB meeting on 25 February 2013. The intention is to prepare the proposed standard beforehand; make relevant changes suggested by constituents during the week commencing 11 February 2013; and mail the proposed standard to the Board on Friday 15 February 2013.

As the proposed changes to ISRE 2400 are minimal and not contentious, it is likely constituents’ suggestions will not generate major considerations/changes to the ED.

Finalisation (including out-of-session voting, if necessary) can be achieved shortly after the Board meeting (25 February 2013) enabling issuance of the standard during March 2013.

This proposed timetable would:

- Provide significant time for constituents to consider the ED given the Christmas break.
- Support the proposal for early adoption being permitted thereby enabling assurance practitioners to use the new standard for periods ending 30 June 2013 and possibly even 31 March 2013.

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Note 1: Compelling Reasons (revision of ASRE 2400)

Para.	Outline of Change	Compelling Reason(s)
3	ASRE 2400 not to be used for reviews of historical financial information other than a financial report	Acknowledgement of existing standard, ASRE 2405 (8/08), originally created by the AUASB because it was considered inappropriate for practitioners to <i>adapt</i> requirements in ASRE 2400 to apply the standard to other financial information, such as a review of a single financial statement.
46 Aus (e)	Practitioner to obtain an understanding of internal control as it relates to the preparation of the financial report.	<ul style="list-style-type: none"> • Logical procedure to implement the requirement at paragraph 45 which requires the practitioner to “identify areas in the financial statements where material misstatements are likely to arise”. • This is a requirement in the existing standard and to leave it out would constitute a reduction in the quality of current practice.
Aus 53.1 and Aus 53.2	Practitioner to review going concern from date of current review report to the expected date of the next review report.	Long standing practice in Australia – both audits and reviews. To leave it out would constitute a reduction in the quality of current practice.
Aus 87.1	If adequate disclosure, reviewer to include an Emphasis of Matter paragraph in the review report to highlight a <i>material uncertainty</i> , including one relating to going concern.	Consistent with clarity auditing standards. To leave it out would constitute a reduction in the quality of current practice.

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ED 04/12:

Standard on Review Engagements ASRE 2415 *Review of a Financial Report — Company Limited by Guarantee* (Re-issuance of ASRE 2415)

1. Does the Board agree with, and approve:
 - (a) The proposed operative date; and
 - (b) The proposed amendments to the standard?
2. For the Board's information - as ASRE 2415 is a statutory instrument, any changes to the standard will require:
 - (a) Office of Best Practice Legislation approval
 - (b) An amending standard
 - (c) An Explanatory Statement
 - (d) A compiled standard (along the lines of the proposed ED)

This documentation will be prepared in due course and presented to the Board together with the finalised standard for approval to issue.

Other

1. When all responses to the EDs (03/12 and 04/12) have been processed into the proposed standard, each proposed standard presented for final approval to the Board will be accompanied by a *Basis for Conclusion* document.
2. Does the Board agree that updating or revising **ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*** should be deferred until the IAASB's approach to the standard is clarified?

The IAASB has not revised, or currently planned to revise, *ISRE 2410 Review of Interim Financial Information by the Independent Auditor of the Entity*. It is recommended that ASRE 2410 should not be amended at this time for the following reasons:

- (a) ASRE 2410 uses ISRE 2410 as the underlying standard; however, it contains a number of additional requirements relating mainly to the legislative nature of the standard (which was primarily written for half-year reviews under the Act). In 2009, ASRE 2410 was reformatted and updated to align it with some of the principles and styles used in the "clarity" auditing standards. ASRE 2410 has been in use since 2006.

The AUASB has not received any information from constituents about practical application issues – this implies that the standard currently serves its purpose adequately, especially regarding half-year reviews under the Act.

- (b) The IAASB has no plans to revise ISRE 2410 and is therefore presumably comfortable, at least for the time being, with the significant inconsistencies that now exist between the new revised ISRE 2400 and the existing ISRE 2410.

It would be inappropriate for the AUASB to revise ASRE 2410 to align with the new ISRE 2400, ahead of the IAASB. If this were to occur, there is a risk that a revised ASRE 2410 may differ significantly from any future revision of ISRE 2410.

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It is considered appropriate to accept the IAASB's position as support for deferring revision of ASRE 2410 at this time.

- (c) Although the new ISRE 2400 is a considerably improved and comprehensive standard, the fundamental principles adopted (limited assurance etc.) and review procedures required are consistent with those used in ASRE 2410 and in practice. A revision of ASRE 2410 to align it with the new ISRE 2400 would not appear to result in any significant increase in work effort and would not provide an increase in the assurance provided.
- (d) The only reference in ASRE 2410 to ASRE 2400 is by way of a footnote attached to guidance paragraph A4. The reference is to the title of the standard only, not the date it was issued.

Conclusion:

There are no apparent compelling reasons for revising ASRE 2410 at this time. The AUASB Technical Group recommends deferral until the IAASB formally considers its approach to ISRE 2410.

3. Does the Board agree that updating or revising **ASRE 2405** *Review of Historical Financial Information Other than a Financial Report* should be deferred until a decision is made on ASRE 2410? It is recommended that ASRE 2405 should not be amended at this time for the following reasons:

- (a) ASRE 2405 is an Australian standard that does not have an equivalent ISRE. Accordingly, there are no obligations to revise it under the Board's convergence and harmonisation policies.
- (b) ASRE 2405 came into existence when the AUASB did not agree to assurance practitioners "adapting" the requirements in ASRE 2400 as necessary in the circumstances of the engagement. ASRE 2400 is clearly designed for the review of a financial report or a complete set of financial statements and the Board did not want "standards" to effectively be set by users. Accordingly, ASRE 2405 was developed to represent the AUASB's decisions on the appropriate requirements applicable to these types of engagements.

The standard was not designed to be equivalent to ISRE 2400, however, was intended to conform to ISRE 2400 to the extent that ISRE 2400 deals with the review of historical financial information other than a financial report. The conformity paragraphs in ASRE 2405 list a number of requirements that are in addition to those found in ISRE 2400.

To date, the AUASB has not received any information from assurance practitioners to suggest that there are any practical application issues with the standard.

- (c) ASRE 2405 refers to ASRE 2400 only in the Preface to the Standard, the conformity paragraph and in Appendix 6 which lists the various review standards against the review engagement types. Accordingly there are no (cross) references contained within the requirements or associated guidance material.

Conclusion:

There are no apparent compelling reasons for revising ASRE 2405 at this time. The AUASB Technical Group recommends deferral until a decision is made on ASRE 2410.

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