

24 July 2009

The Chairman
Auditing and Assurance Standards Board
PO Box 204
Collins Street West
Melbourne Victoria 8007
AUSTRALIA

Dear Ms. Kelsall,

ED 20/09 Proposed Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (Revised and Redrafted)

Attached is the Australasian Council of Auditors-General (ACAG) response to the Exposure Draft referred to above.

The views expressed in this submission represent those of all Australian members of ACAG.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely



Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

ED 20/09 PROPOSED STANDARD ON REVIEW ENGAGEMENTS ASRE 2410 REVIEW OF A FINANCIAL REPORT PERFORMED BY THE INDEPENDENT AUDITOR OF THE ENTITY (REVISED AND REDRAFTED)

ACAG have reviewed the proposed standard and provide comments below. All references to ASAs are, unless otherwise stated, to the ASAs redrafted in clarity format.

Reference to ASAs

The clarity of the requirements and guidance in the proposed ASRE may be enhanced by providing references to relevant ASAs where the ASA expands on the particular concept, requirement or guidance.

For example:

- Requirement 10 refers to ‘professional judgement’ and ‘professional scepticism’. Proposed ASA 200 ‘Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (Revised and Redrafted)’ requirements 13(k) and (l), 15, 16 and guidance paragraphs A18-A27 provide further guidance about what these terms mean and about how to apply them.
- Requirement 11 requires auditors to determine whether the applicable financial reporting framework is acceptable. Proposed ASA 210 ‘Agreeing the Terms of Engagement (Revised and Redrafted)’ requirement 6(a) and guidance paragraphs A2-A10 provide guidance on deciding whether the reporting framework is acceptable.

References to these and other relevant ASAs will assist auditors apply ASRE 2410 more effectively.

In addition, a paragraph clarifying the status of ASAs for a review engagement would ensure the material in the ASAs is treated as guidance only. For example, ‘Although ASAs do not apply to review engagements covered by ASRE 2410, they may nevertheless provide helpful guidance to assurance practitioners’.

Requirements and guidance on the Auditor’s Review Report

The proposed ASA 705 ‘Modifications to the Opinion in the Independent Auditor's Report (Revised and Redrafted)’ and proposed ASA 706 ‘Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report (Revised and Redrafted)’ provide guidance on the form and content of the auditor’s report where:

- there is a conflict between applicable financial reporting frameworks (ASA 705 AUS15.1)
- applying the applicable financial reporting framework is potentially misleading and additional disclosures are required to present a true and fair view (ASA 706 AUS 7.1).

The proposed ASRE 2410 does not consider circumstances where there is a conflict between applicable financial reporting frameworks or where application of the applicable financial reporting framework(s) results in information that is misleading. Further guidance on reporting requirements in these circumstances or a reference to the relevant ASAs would be valuable.

Clarity of Paragraph 39

The wording of paragraph 39 is difficult to understand. We recommend changing the wording to:

“When in rare circumstances there is a limitation on the scope of an auditor’s work, that is confined to one or more specific matters that, while material, are not in the auditor’s judgement pervasive to the financial report and when the auditor concludes that an unqualified conclusion cannot be expressed, the auditor shall express a qualified conclusion. A qualified conclusion shall be expressed as being “except for” the effects of the matter to which the qualification relates. The conclusion paragraph shall be headed “Qualified Conclusion.”

This wording would improve the understanding of the requirement without changing the meaning of the paragraph.

Review of a summary financial report

Guidance paragraph A57 relates to engagements to review summary financial reports. There are no requirement paragraphs in the proposed standard that relate to such a review. Because a review of a summary financial report would differ significantly from a review of any other financial report, we recommend separate requirements or a separate standard be developed for the review of a summary financial report.

The IAASB and AUASB have both created separate auditing standards for the independent audit of summary financial statements and the independent audit of other financial reports. This is because the requirements for each type of audit are significantly different (refer to IAASB ‘Basis for Conclusions – Close Off Document – ISA 805 (Revised), Engagements to Report on Summary Financial Statements’ paragraphs 8-10). We recommend a similar approach be considered for review engagements because the review work performed for a review of a summary financial report, and the review report issued, are significantly different when compared to those of a review of a financial report prepared in accordance with an applicable financial reporting framework.

The objective of the auditor stated in proposed ASRE 2410 (to express a conclusion as to whether a financial report is prepared in accordance with an ‘applicable financial reporting framework’ – refer paragraph 4) does not reflect the objective of a review of a summary financial statement. An ‘applicable financial reporting framework’ is a financial reporting framework designed to achieve fair presentation. However, a summary financial report is prepared in accordance with an applicable criteria which is not necessarily intended to achieve fair presentation, but is to provide a summary of the financial report from which it is derived (refer paragraph 4 of proposed ASA 810).

‘Other Considerations’ section

Guidance paragraphs A55 and A56 provide guidance on additional considerations related to the auditor’s review report. However, the requirements section of the standard does not refer the reader to these guidance paragraphs leading to the risk that these paragraphs will be overlooked. We recommend including references to the other considerations in relevant parts of the proposed requirements.

Clarification of the meaning of Requirement 11

The wording of Requirement 11 suggests that the auditor shall determine whether the financial reporting framework is acceptable and agree the matters listed in 11(a) to 11(c) *prior* to agreeing the terms of the engagement. As the matters listed in 11(a) to 11(c) would generally form part of the terms of the engagement we recommend the AUASB clarify this requirement.

Footnotes in Example Engagement Letter

We recommend the footnote references in the following excerpt from the ‘Scope’ section of the ‘Example of an Engagement Letter for a Review of a Financial Report’ in Appendix 1 be changed to refer to footnote 8, as shown below.

‘...become aware of any matter [anything has come to our attention⁸] that makes [causes⁹⁸] us [to⁹⁸] believe ...’

Also, we suggest footnote 8 should use the terminology *half-year financial report* rather than *interim financial report*. This would be consistent with the rest of the proposed standard (for example, the introduction to the example engagement letter and requirement 1(a)).

We recommend the references to an *interim financial report* in footnotes 14, 23, 24, 30, 31, 37, 38, 44, and 45 be changed to refer to a *financial report* because the standard applies to financial reports, not only interim financial reports.

Some of the footnotes to the appendices refer to old standards or to the existing auditing standards, for example, footnotes 26, 33, 40, 47 and 55. We recommend updating these to refer to the standards redrafted in clarity format.

Titles in contents page not consistent with titles of Appendices

Some of the titles in the contents page do not match the titles of the corresponding Appendices, for example, the contents page refers to ‘Appendix 1: Example of an Engagement Letter for a Review of an *Interim* Financial Report’ but Appendix 1 contains the ‘Example of an Engagement Letter for a Review of a Financial Report’. Similar mismatches occur for Appendix 2 and 4. We recommend that the Contents Page be consistent with the titles of the sections referred to.

Example review procedures

We recommend that the last sentence in paragraph 6(d) of the ‘Illustrative Detailed Procedures that may be Performed in an Engagement to Review a Financial Report’ in Appendix 2, refer to a *financial report* rather than an *interim financial report* as the procedure is applicable for review engagements other than an engagement to review an interim financial report.

ACAG has reviewed the proposed standard and provide the following comments in response to the matters raised by the AUASB.

1. Have applicable laws and regulations been appropriately addressed in the proposed standard?

We believe all applicable laws and regulations have been appropriately addressed.

2. Are there any references to relevant laws or regulations that have been omitted?

Other than the two matters below, we believe the proposed standard has not omitted any references to relevant laws and regulations.

Requirement 1(a) refers to Financial Reports for the half year prepared in accordance with the *Corporations Act 2001*. The extant ASRE 2410 included a reference to Part 2M.3 of the *Corporations Act 2001* and we recommend that the same reference is included in the proposed ASRE 2410 as it is this part of the Act that sets out the requirements for the preparation and audit of half year financial reports.

Guidance paragraph A5 refers to the relevant ethical requirements. We recommend that a reference to APES 110 be included as a footnote to guidance paragraph A5 because APES 110 provides further guidance about the auditor's ethical requirements. This would also make ASRE 2410 consistent with other standards (e.g. ASA 200 guidance paragraph A14).

3. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?

We do not believe there are any current laws or regulations that may, or do, impede the application of the proposed ASRE 2410.

4. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the Requirements of this proposed Auditing Standard? If there are significant costs, do these outweigh the benefits to the users of audit services?

We do not believe there will be any significant additional costs or benefits from the application of the proposed standard.

5. Are there any other significant public interest matters that constituents wish to raise?

We do not have any other matters of significant public interest to comment on.