

June 2020

Basis for Conclusions

ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity

Prepared by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

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Basis for Conclusions ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*

Basis for Conclusions ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* has been developed by the Auditing and Assurance Standards Board (AUASB) to provide a background to, and rationale for the development and approval of the Standard by the AUASB. The Basis for Conclusions relates to, but does not form part of, ASRE 2410.

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CONTENTS

	<i>Page</i>
Background	5
Scope.....	6
Key proposed changes	6
Major Issues raised by Respondents on Exposure.....	7
Conformity with IAASB’s auditing standards	9
Conclusion.....	10

BASIS FOR CONCLUSIONS

ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity

This Basis for Conclusions is issued by the Auditing and Assurance Standards Board (AUASB). It provides a background to, and rationale for the development and approval of ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410), by the AUASB. The Basis of Conclusions relates to, but does not form part of ASRE 2410, and is not a substitute for reading the Standard.

Background

1. The AUASB has a strategic objective to develop, issue and maintain high quality Australian Auditing Standards. The AUASB takes input received from Australian stakeholders into account when developing Australian Auditing Standards.
2. From December 2016, the auditor's report has been enhanced to communicate further information in a more transparent manner, about the performance of the audit. These changes were limited to the auditing standards.
3. International Standard on Review Engagements ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* (ISRE 2410) has not been updated since 2006. The AUASB re-issued ASRE 2410 in 2009 in clarity format, and made further conforming amendments in June 2011 and July 2013.
4. Currently, whilst ASRE 2410 has not been updated, auditors can, but are not required to, use the new reporting format when issuing a review report provided any reporting is not inconsistent with ASRE 2410. On July 2017 the AUASB issued a Bulletin [Auditor review reports – the impact of the new auditor reporting requirements](#) to provide guidance on this matter.
5. Since this date the AUASB has observed inconsistency in auditor's review reports being issued, as some are in the old format contained in ASRE 2410 and others have been changed based on the guidance in the AUASB's Bulletin.
6. Consistent with the AUASB's principle of harmonisation with New Zealand, the AUASB agreed to develop an Exposure Draft in Australia concurrently with the NZAuASB, which incorporates the changes to the auditor's review report as a result of the enhanced auditor's report. In addition, it was agreed it was appropriate to include conforming amendments as a result of the IAASB's project regarding non-compliance with laws and regulation (NOCLAR).
7. The AUASB issued [Explanatory Memorandum and Exposure Draft 01/19: ASRE 2410 Review of a Financial Report Performed by the Auditor of the Entity](#) (ED 01/19) on 16 May 2019, seeking feedback from stakeholders on proposed amendments to ASRE 2410. Refer to the Explanatory Memorandum for information about ED 01/19, and the AUASB's approach to implementing this standard in Australia.
8. The NZAuASB released their equivalent Exposure Draft NZAuASB 2019-1 (ED NZAuASB 2019-1) on 12 July 2019. Whilst the majority of the proposed changes in the EDs were consistent, the AUASB and the NZAuASB had alternate views on how to describe, in the auditor's review report, the auditor's responsibility relating to going concern.
9. The AUASB issued [Addendum to Explanatory Memorandum Exposure Draft 01/19](#) on 19 July 2019 to:

- (a) Communicate to Australian stakeholders the different options presented by the AUASB and the NZAuASB on how to describe in the auditor's review report the auditor's responsibility relating to going concern; and
- (b) Request additional feedback on this issue, in order to inform the AUASB in its deliberations on the proposed amendments to ASRE 2410.

Refer paragraph 12 for further detail.

Scope

10. The scope of the update to ASRE 2410 was to:
- (a) Align the format and content, where applicable to a review engagement, of the auditor's review report in ASRE 2410 to the auditor's report requirements in ASA 700¹, ASA 705² and ASA 706³; and
 - (b) Include conforming amendments, relevant to a review engagement, as a result of recent changes to ASA 250 *Considerations of Laws and Regulations in the Audit of a Financial Report*.

Key proposed changes

11. The following proposed changes to ASRE 2410 were included in ED 01/19:
- (a) Updated communication requirements and alignment of terminology for NOCLAR;
 - (b) To reorder the auditor's review report so that the conclusion comes first, followed by a basis for conclusion. This is for consistency with the principles in the auditor's report under ASA 700;
 - (c) To include a description of the respective responsibilities of management / those charged with governance and the auditor in relation to going concern. Refer paragraph 12 to 14 for more detail.
 - (d) To include a statement about the auditor's independence to include the fulfilment of relevant ethical requirements; and
 - (e) To report a material uncertainty related to going concern under the heading "Material Uncertainty Related to Going Concern" instead of an "Emphasis of Matter" as currently required in ASRE 2410.

Description of the auditor's responsibility in relation to going concern in the auditor's review report

12. As a result of the update to ASA 700, the annual auditor's report includes enhanced disclosure about the auditor's responsibilities in relation to going concern. The AUASB and the NZAuASB considered that it was also appropriate to include the description of the responsibility in relation to going concern in the auditor's review report, in order to improve transparency and to avoid misunderstanding from users. However, as discussed above, both boards had different views on how best to describe this.
13. The AUASB concluded that the description of the auditor's responsibilities included in the auditor's review report should reflect the procedural requirement of ASRE 2410 paragraph 19 in relation to going concern, to improve transparency and avoid any misunderstanding to the reader of the review report. Based on this the AUASB's ED 01/19 includes the following in

¹ ASA 700 *Forming an Opinion and Reporting on the Financial Report*

² ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*

³ ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

relation to the description of the auditor's responsibility in the auditor's review report, which is a direct reflection and an exact replication of the requirement contained in extant ASRE 2410 paragraph 19:

“We make enquiries about whether those charged with governance have changed their assessment of the entity's ability to continue as a going concern. When, as a result of this enquiry or other review procedures, we become aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern: (a) we enquire of those charged with governance as to their plans for future actions based on their going concern assessment, the feasibility of these plans, and whether they believe that the outcome of these plans will improve the situation; and (b) we consider the adequacy of the disclosure about such matters in the financial report.”

14. The proposed description of the auditor's responsibilities in relation to going concern included in NZAuASB's ED 2019-1 was more closely aligned to the description in ASA/ISA 700 and was:

“Based on the review procedures performed, we conclude on whether anything has come to our attention that causes us to believe that the use of the going concern basis of accounting by those charged with governance is not appropriate and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If a matter comes to our attention that causes us to believe that a material uncertainty related to going concern exists, we are required to draw attention our review report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our conclusion. However, future events or conditions may cause the entity to cease to continue as a going concern”.

15. The AUASB considered that it is not an appropriate time to consider reporting on Key Audit Matters and Other Information in an auditor's review report until the results of the IAASB's Auditor Reporting post implementation review is known. Accordingly, the AUASB did not propose to require the following reporting in the auditor's review report:

- Key audit matters required by ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*;
- An Other Information section required by ASA 720 *The Auditor's Responsibility Relating to Other Information*.

16. The AUASB sought feedback from stakeholders on the above matters.

Major Issues raised by Respondents on Exposure

17. The AUASB received submissions from eight stakeholders representing auditors and professional bodies. All respondents indicated that were supportive of the scope of the update to ASRE 2410, including not requiring communication of key audit matters and an other information paragraph. The following is a summary of the feedback received and how the AUASB responded.

NOCLAR

18. All respondents supported the inclusion of NOCLAR amendments to ASRE 2410, however several respondents requested further inclusion of requirements from ASA 250 as follows:

- To remind the auditor that they may have other ethical responsibilities related to NOCLAR;
- To include a specific requirement to make enquiries as to NOCLAR;

- To more fully address what the auditor is required to do when they become aware of NOCLAR;
 - To better reflect the communications that the auditor would need to undertake; and
 - To include more explicit documentation requirements related to NOCLAR.
19. The AUASB noted that the objective of this project was to update ASRE 2410 for conforming amendments for consistency with terminology and ensure there was no inconsistency with the NOCLAR requirements. The proposed amendments to ASRE 2410 were based on ASRE 2400 which had been updated by the IAASB for conforming amendments as a result of NOCLAR. The AUASB agreed to make the following changes to include:
- A specific requirement to make enquiries about NOCLAR;
 - Additional application material to include guidance when law or regulation may restrict the auditor's communications; and
 - Cross reference to ASA 250 for guidance including where there may be additional communication required.

The AUASB do not consider it necessary to include specific documentation requirements above those required in ASRE 2410.

Compliance Frameworks

20. Whilst respondents were in favour of the inclusion of compliance frameworks explicitly within ASRE 2410, many commented that this would be used rarely. Some respondents noted areas where ASRE 2410 still referred to fair presentation only. The AUASB have amended ASRE 2410 as appropriate.

Description of the auditor's responsibility for going concern in the review report

21. All respondents, while supportive of including a description of the auditor's responsibility in relation to going concern in the review report, emphasised the importance of the AUASB and the NZAuASB reaching consensus on this matter and issuing standards with the same requirements. Whilst supportive, the feedback received on the wording included in ED 01/19 and NZAuASB's ED was mixed with neither option receiving widespread support. The feedback was:
- Most stakeholders did not support the description in NZAuASB's ED 2019-1 as an explicit statement that the auditor concludes on going concern basis of accounting and whether a material uncertainty related to going concern exists, is not a requirement in ASRE 2410, and therefore this should not be included in the auditor's responsibilities section of the review report. It was agreed that this would be misleading to readers of the review report, and in excess of the current requirements.
 - Many stakeholders felt that the description included in AUASB's ED 01/19 was not the most effective way of communicating the auditor's responsibility for going concern, as it was not complete and that the procedures were not the responsibility. Also some respondents commented that the description did not include the reporting the auditor is required to do if the outcome of the procedures indicates going concern issues, which leaves users to draw their own conclusions.
22. During the exposure process the NZAuASB also undertook further consultation with report users and received feedback that both proposed wordings (in the AUASB and NZAuASB's exposure drafts) may exacerbate the expectation gap and therefore neither version of the proposed wording may be appropriate or ideal to achieve the Boards' objectives.

23. The AUASB and the NZAuASB formed a sub-committee to look at ways to consider the feedback received and how to align auditor's review report. The range of scenarios and considerations related to going concern are complex and difficult to summarise in plain English in a concise manner, especially in a review report where there are broader communication challenges related to explaining the difference between an audit and a review. Lengthy complex words run the risk of unbalancing the report, but short and concise language may not convey the appropriate message in an environment where going concern matters will be an increasing challenge. The joint sub-committee recommended to both boards to not include the auditor's responsibility in relation to going concern in the review report.
24. Based on this, both the AUASB and NZAuASB agreed to retain the current approach which is to not include the auditor's responsibility in relation to going concern in the review report due to the complexity of going concern in a limited assurance environment, and to avoid the potential for misunderstanding by using lengthy wording that may inadvertently create an imbalance in the review report. Lengthy wording could have the unintended consequence of elevating the importance of going concern when considered in the context of the entire auditor's responsibilities and reporting.
25. This decision recognises that internationally the IAASB is looking to respond to calls for auditors to communicate more clearly on going concern matters, together with recognition that this requires a more holistic approach.

Description of Management's Responsibility for Going Concern in the Review Report

26. All respondents agreed with how management's responsibility in relation to going concern was described in ED 01/19. However as a result of not including the auditor's responsibility for going concern in the review report, both the AUASB and NZAuASB agreed to not include management's responsibility for going concern in the review report.

Other feedback received

27. One respondent recommended that the auditor of the entity be defined to clarify that it means the auditor of the entity's annual financial statements. The AUASB considered that the scope of ASRE 2410 was clear in paragraph 3.
28. In outreach in New Zealand and in submissions received by the AUASB, practitioners have queried what the auditor is required to do in the year they are first appointed as the auditor (i.e. have not actually audited the annual financial statements yet). We consider that this is an existing gap in ASRE 2410, and would require clarification or addition of the procedures to be performed, which the AUASB and NZAuASB have agreed are out of scope of the current project.
29. One respondent encouraged the AUASB to consistently apply the relevant reporting changes to the full suite of review standards. The AUASB consider this is beyond the scope of the current project and that no further action is taken ahead of the IAASB post implementation review.
30. Several respondents suggested further enhancements to ASRE 2410 in relation to the procedures an auditor performs in relation to going concern. The AUASB consider this to be beyond the scope of this project.
31. Use of the term "management" verses "those charged with governance" to be reconsidered for consistency. The AUASB have concluded that ASRE 2410 shall use the term "management and where appropriate, those charged with governance" consistently throughout.

Conformity with IAASB's auditing standards

32. In accordance with its mandates under section 227 of the *ASIC Act 2001* and the Financial Reporting Council's (FRC) Strategic Direction, the AUASB's policy is to adopt the IAASB's

auditing standards (ISAs), unless there are compelling reasons not to do so, and to amend the ISAs only when there are compelling reasons to do so. The AUASB's principles of convergence with the ISAs and harmonisation with the New Zealand auditing standards can be found on the AUASB's website:

http://www.auasb.gov.au/admin/file/content102/c3/Aug14_IAASB-NZAuASB_Principles_of_Convergence_and_Harmonisation.pdf

33. ASRE 2410 has been revised and updated several times since the equivalent ISRE 2410 became operative. Extant ASRE 2410 conforms with International Standard on Review Engagements ISRE 2410. The amendments made to ASRE 2410 add to existing requirements of ISRE 2410 and consequently the AUASB considers that ASRE 2410 conforms with ISRE 2410.

Conclusion

The AUASB voted to approve and issue ASRE 2410 on 9 June 2020.

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