

# **Addendum to Explanatory Memorandum**

## **Exposure Draft 01/19**

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

Issued by the Auditing and Assurance Standards Board



**Australian Government**

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**Auditing and Assurance Standards Board**

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**Addendum to Explanatory Memorandum**

**Exposure Draft 01/19: ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity***

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*Important Note and Disclaimer*

This Addendum to Explanatory Memorandum is issued by the AUASB to provide information to assurance practitioners about the AUASB's proposed amendments to ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity*.

This Addendum to Explanatory Memorandum does not establish or extend the requirements under an existing AUASB Standard(s) and is not intended to be a substitute for compliance with the relevant AUASB Standards with which auditors and assurance practitioners are required to comply when conducting an audit or other assurance engagement. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

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## ADDENDUM TO EXPLANATORY MEMORANDUM

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

#### **Purpose**

1. From December 2016 the auditor's report has been enhanced to communicate more and in a transparent manner about the performance of the audit. The AUASB are now amending ASRE 2410 *Review of a Financial Report performed by the Independent Auditor of the Entity* (ASRE 2410) to align the format and content of the auditor's review report, with the enhanced annual auditor's report contained in ASA 700<sup>1</sup>, as relevant to a limited assurance engagement.
2. 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 Auditing and Assurance Standards Board's (AUASB) approach to implementing this standard in Australia.
3. Consistent with the AUASB's principle of harmonisation with New Zealand<sup>2</sup>, ASRE 2410 is being updated in Australia concurrently with the NZAuASB's equivalent standard, NZ SRE 2410.
4. At the time of the AUASB issuing ED 01/19 the NZAuASB were still deliberating on its proposed amendments to NZ SRE 2410. The NZAuASB released their equivalent Exposure Draft NZAuASB 2019-1 ([ED NZAuASB 2019-1](#)) on 12 July 2019.
5. Whilst the majority of the proposed changes in the EDs are consistent, the AUASB and the NZAuASB have alternate views on how to describe, in the auditor's review report, the auditor's responsibility relating to going concern.
6. The purpose of this Addendum to Explanatory Memorandum ED 01/19 is 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.

In particular, the AUASB would like stakeholders to provide feedback on the different approaches the AUASB and NZAuASB have taken when it comes to the description of the auditor's responsibility relating to going concern in the review report.

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

7. 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. ASA 700<sup>3</sup> requires the description of the auditor's responsibility in relation to going concern in the annual auditor's report to include a specific reference to the auditor's responsibility to conclude on the

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

2 The AUASB and the NZAuASB have a mandate to harmonise standards where applicable, unless there is a compelling reason not to. Compelling reasons for differences between Australian and New Zealand standards are where:

(a) Different regulatory requirements apply; and/or

(b) Different practices are considered appropriate (including the use of significant terminology).

3 ASA 700 *Forming an Opinion and Reporting on a Financial Report*, paragraph 39 (b) (iv).

appropriateness of management's use of the going concern basis of accounting, and the reporting implications if the auditor concludes that a material uncertainty exists. The responsibilities described in the auditor's report are a direct reflection and an exact replication of the wording of the auditors requirements to achieve reasonable assurance contained in ASA 570 paragraph 18.

8. The AUASB and the NZAuASB considered that it was also appropriate to enhance 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.
9. In its deliberations on how to describe this responsibility in the auditor's review report the AUASB discussed that it is in the public interest for users of financial reports to understand the difference between limited assurance versus reasonable assurance.
10. The AUASB noted that the current disclosure requirement in relation to going concern contained in ASA 700 is not appropriate for a limited assurance review engagement as:
  - (a) this is consistent with the procedures for obtaining reasonable assurance when applying ASA 570; and
  - (b) concluding on the appropriateness of management's use of the going concern basis of accounting, is greater than the current requirement in ASRE 2410 paragraph 19.
11. 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.
12. Based on this the AUASB's ED 01/19<sup>4</sup> includes the following in 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."*
13. The proposed description of the auditor's responsibilities in relation to going concern included in NZAuASB's ED 2019-1 is:

*"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".*

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4 ED 01/19 paragraph 37 (d).

14. The NZAuASB concluded that:

- (a) it is appropriate to include the elements required by ISA (NZ) 700 (equivalent to ASA 700), modified for a review engagement;
- (b) whilst NZ SRE 2410 is not explicit that the auditor shall conclude on the appropriateness of going concern basis of accounting, they consider that this is implicit;
- (c) if the report does not explain why the auditor is performing these procedures or what they found it may be unlikely to satisfy investor perceptions around the auditor's responsibilities; and
- (d) references to other review procedures may increase the risk that the report could be misinterpreted by users.

### **Request for Comments**

In addition to the questions included in the [Explanatory Memorandum](#) the AUASB is seeking feedback from stakeholders on the following:

- 1. Do you agree that the review report should include a description of the responsibility for the auditor in respect of going concern?
- 2. Do you agree with how the auditor's responsibility has been described in ED 01/19? If so, why. If not, why not, with, if appropriate, specific reference to the NZAuASB suggested wording.

### **Other Outreach Activities**

15. The AUASB will conduct targeted outreach with specific users of ASRE 2410, in particular auditors of Listed Entities.

### **Application Date**

16. The proposed effective date of the standard is for financial reporting periods commencing on or after **1 January 2020**, with early adoption permitted.

### **Comment Date**

17. The AUASB originally requested comments by 8 August 2019 on ED 01/19 however to give stakeholders an opportunity to consider this Addendum the AUASB now request comments by **28 August 2019**.
18. At the completion of the exposure period, the AUASB will consider stakeholders' submissions.

### **Website Resources**

19. ED 01/19 is available on the [AUASB](#) website. A "track changes" version is also available to assist stakeholders identify the proposed changes.

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