



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **7.0**

Meeting date: 16 April 2019

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

Date prepared: 12 April 2019

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Action Required

For Information Purposes Only

Agenda Item Objectives

1. For the AUASB to consider the matters detailed in this paper and subject to these approve ED 05/19 ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity* (ED 05/19).

Background

2. Previously the AUASB have discussed that there are inconsistencies between ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity* (ASRE 2410) and the Auditor Reporting enhancements. However an update to ISRE 2410 was not on the IAASB's agenda. NZAuASB also considered an update to ISRE 2410 was required.
 3. At its meeting on 12 September 2018 the AUASB agreed we would work with NZAuASB to update ISRE (NZ) 2410 and ASRE 2410 with consistent principles.
 4. Importantly it was agreed the scope of this update is limited to NOCLAR and Auditor Reporting conforming amendments.
 5. At its meeting on 5 December 2018 the AUASB discussed the ASRE 2410 *Matters for the AUASB's Consideration* paper and agreed with the ATG recommendations. ED 05/19 has been drafted based on this.
 6. At its meeting on 6 March 2019 the AUASB briefly discussed draft ED 05/19 and agreed to include compliance frameworks in its scope which is consistent with ISRE 2410 and NZ 2410.
 7. This paper includes the matters for the AUASB's consideration.
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Matters to Consider

Part A – Matters for the AUASB attention

Scope of the amendments to ASRE 2410

8. The amendments proposed to ASRE 2410 in ED 05/19 extend beyond the matters agreed at the December 2018 AUASB meeting. This is due to additional amendments being identified through the course of updating the standard and also in consultation with changes made in conjunction with the NZAuASB.

Quality control procedures

9. ASRE 2410 paragraph 8 and 9 requires auditors to “comply with relevant ethical requirements relating to the audit of the entity” and to “implement quality control procedures that are applicable to the individual engagement”. Application paragraph A6 says ASQC 1¹ and ASA 220² include guidance that may be helpful.
10. NZ SRE 2410 also requires compliance with ISA 220.
11. The ATG’s view is that whilst ASA 220 is written for an audit, the principles are relevant for a review engagement. However existing requirements in extant ASRE 2410 are sufficient to ensure auditors are adopting an appropriate level of quality control procedures and the ATG’s recommendation is that it is not necessary to have a specific requirement to apply ASA 220. The ATG also notes that this is outside the scope of this update.

Question for the AUASB

Do you agree with the ATG’s conclusion in paragraph 10?

Other information

12. The AUASB previously agreed not to require compliance with ASA 720 and require an Other Information section in the auditor’s review report, and ED 05/19 has been drafted on that basis.
13. Extant ASRE 2410 A36 provides guidance that if there is a material error in the other information the auditor may consider an Other Matter Paragraph (OMP). At its meeting on 6 March 2019 the AUASB discussed that it would be more appropriate and for consistency with the auditor’s report that this to be reported as an Other Information paragraph. The AUASB also discussed whether this should be a requirement or explanatory material. No formal decision was made. The ATG have considered this further and have concluded that it is appropriate to include this in A36 (explanatory material) and not as a requirement as this is an extremely rare scenario, and we do not want to go ahead of the ISRE on this matter.

Questions for the AUASB

The ATG considered whether a definition of other information should be included in ED 05/19. However have concluded that paragraph 25 (ie. read the other information that accompanies the financial report”) is sufficient. Does the AUASB agree that no further definition is required?

Do you agree that in the scenario where there is an uncorrected material error in the other information ED 05/19 includes guidance in the explanatory material for auditors to consider reporting this in an Other Information paragraph, and not include this as a requirement?

¹ ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information , Other Assurance Engagements and Related Services Engagements*

² ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*

NOCLAR

14. ASRE 2400 was updated in 2016 for conforming amendments as a result of the NOCLAR amendments to the ASAs. The IAASB did not make any conforming amendments to ISRE 2410 as a result of the NOCLAR.
15. Extant ASRE 2410 has fewer requirements related to laws and regulations than ASRE 2400. For example, ASRE 2400 includes more detailed requirements around making enquiries related to NOCLAR. This is because ASRE 2400 usually relates to a standalone engagement, whereas engagements conducted in accordance with ASRE 2410 are performed by the auditor of the entity and the requirements of ASA 250 apply.
16. ED 05/19 paragraph 30 has been updated based on the IAASB's conforming amendments to requirements ISRE /ASRE 2400. There were no other conforming amendments to the requirements in ASRE 2400.
17. The changes made to the application material in ASRE 2400 have been considered however these are all included in ASA 250. The ATG consider it is appropriate that ASRE 2400 has more detailed requirements than ASRE 2410 and for ASRE 2410 to refer the auditor to ASA 250 if during the conduct of the review any issues are identified. Based on this ED 05/19 has been updated to have include a reference in paragraph A20 (d) (xv) to refer to ASA 250 for guidance.

Question for the AUASB

Do you agree with the approach detailed above for NOCLAR amendments?

Review Conclusion

18. The review conclusion wording included as a requirement in extant ASRE 2410 was for a financial report prepared using a fair presentation framework which was not in accordance with the *Corporations Law 2001*. The wording required by the *Corporations Law 2001* is different and was included in Appendix 3.
19. For clarity and as ASA 101 *Preamble to Australian Auditing Standards* states that the appendices are not authoritative, the wording required by the *Corporations Law 2001* section 309 (4), has been added as a requirement in ED 05/19.
20. The wording for the review conclusion for a compliance framework has also been added to ED 05/19. This is based on ASA 700 paragraph 26.
21. Refer to ED 05/19 paragraph 33 e.

Question for the AUASB

Does the AUASB agree that the wording for the three types of conclusions should be included as an explicit requirement? Does the AUASB agree with the wording?

Management's responsibilities

22. Consistent with ASA 700, ED 05/19 paragraph 35 includes the term "management" and an explanation to use the term that is appropriate. The illustrative example review reports also use the term "management".

Question for the AUASB

Do you agree with the terminology used in paragraph 35?

Auditor's responsibilities

23. As agreed at the AUASB 6 March 2019 meeting the auditor’s responsibility in relation to going concern is described consistently with the requirement in extant ASRE 2410 paragraph 19. This is different to the wording in NZAuASB’s draft ED which is based on ASA 700 and is:

The auditor makes enquiries about the appropriateness of the use of the going concern basis of accounting. If the auditor considers that a material uncertainty exists, the auditor is required to draw attention in the review report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the conclusion. The auditor’s conclusions are based on the evidence obtained up to the date of the auditor’s report. However future events or conditions may cause the entity to cease to continue as a going concern.

Question for the AUASB

Do you agree with how the term “state” and “describe” is used in paragraph 37?

Do you agree with how the auditor’s responsibility in relation to going concern is described in ED 05/19?

Modified review opinions

24. ED 05/19 Paragraphs 39 – 40 have been added to assist with the “flow” of the standard and are consistent with ASA 705 *Modifications to the Opinion in the Independent Auditor’s Report*. Paragraphs 41 to 49 have been updated to comply with ASA 705, however the structure of extant ASRE 2410 has been retained.

Question for the AUASB

Do you think the additions of paragraph 39 and 40 are helpful? And are the paragraphs 41 to 49 sufficient to assist auditors in determining the correct conclusion?

Going concern

25. As discussed at the AUASB meeting on 6 March 2019, ED 05/19 has been updated to change the requirement from an emphasis of matter to a material uncertainty related to going concern.

Emphasis of Matter and Other Matter Paragraphs

26. Paragraph 52 has been amended to remove the reference to going concern, and paragraphs 53 and 54 have been added for consistency with ASA 706 and ASRE 2400.

Conformity with ISRE 2410

27. This section lists the differences between ISRE and ASRE 2410 and will be finalised when the requirements in ED 05/19 are finalised. The paragraphs which are highlighted in yellow will be reviewed and likely to change.

Appendix 4 Illustration review report examples

28. Extant ASRE 2410 includes the following:
- A. Auditor’s Review Report with an Unmodified auditor’s conclusion on a Financial Report
 - B. Auditor’s Review Report with a Qualified Conclusion (Except for) for a Departure from the Applicable Financial Reporting Framework
 - C. Auditor’s Review Report with a Qualified Conclusion for a Limitation on Scope Not Imposed by Management

- D. Auditor’s Review Report with an Adverse Conclusion for a Departure from the Applicable financial Reporting Framework
 - E. Auditor’s Review Report with a Qualified Conclusion (Except for) on the Basis that Comparatives have not been Reviewed or Audited
29. These have been updated for change in terminology i.e. Balance Sheet vs Statement of Financial Position, consistency with ASA 700, and the amendments to the wording of qualified opinions to conform with ASA 705. Also a new example review report has been added for a compliance framework.
30. Example C uses the term “limitation on scope not imposed by management” which has been updated in ASA 705 to “inability to obtain sufficient appropriate evidence”. In this scenario, ASA 705 requires the auditor to issue an Except for qualification, or a disclaimer if pervasive. Example C includes an Except for opinion, which is in effect very similar to Example B.
31. Example E is outdated and is not in compliance with ED 05/19 paragraph 21 or ASA 510 and the Explanatory Guide *Opening Balances*. In the ATG’s view in this scenario auditors should refer to ASA 510 and that this example be removed from ED 05/19. Based on this the ATG have not updated this example in ED 05/19.

Question for the AUASB

Does the AUASB consider that Example C should be retained as is or the conclusion be changed to a disclaimer as this is not covered in the illustrative examples in ED 05/19?

Does the AUASB agree that it is appropriate to remove Example E from ED 05/19?

Does the AUASB agree that adding an example review report for compliance frameworks is useful to auditors?

Operative date

32. The AUASB initially discussed an operative date of financial reporting periods commencing on or after 1 July 2019, with early adoption permitted. The ATG recommend that this is changed to financial report periods commencing on or after 1 January 2020 with early adoption permitted. This will require the new review report format to be used for interim reporting at June 2020 as the half year is a discrete reporting period. Whilst the changes are not onerous auditors will need to update their review report templates.

Question for the AUASB

Do you agree with the proposed effective date and it allows sufficient time for the auditors to update their templates?

Timing and outreach

33. If ED 05/19 is approved for issue by the AUASB at this meeting, the ATG propose that it is issued by end of April 2019 for a 90 day comment period. The final standard will be considered by the AUASB at its meeting on 11 September 2019. The ATG anticipate this standard will be approved at the September or December 2019 AUASB meetings. The ATG will conduct targeted outreach with auditors of listed entities.

Part B – NZAuASB

34. This project is being conducted in conjunction with the NZAuASB with the objective of issuing standards with consistent principles.

Part C – “Compelling Reasons” Assessment

35. N/A

Actions for the AUASB

36. Consider the questions detailed above.
37. Review the draft ED 05/19 Explanatory Memorandum. Specifically are there any other questions to be included for our stakeholders?
38. Review the track changes version of ED 05/19 ASRE 2410. Note that a clean and track changes version has been provided including comments to aid the AUASB’s review.
39. Based on the above do you approve ED 05/19 ASRE 2410 for issue?

Material Presented

Agenda item 7.0	Board Meeting Summary Paper
Agenda item 7.1.1	ED 05/19 Explanatory Memorandum
Agenda item 7.1.2	ED 05/19 - Track Changes Version
Agenda item 7.1.3	ED 05/19 - Clean Version