

## ASRE 2410 – MATTERS FOR THE AUASB CONSIDERATION

### Introduction and purpose of this paper

1. The AUASB have agreed to update ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* to conform with the amendments to the Auditing Standards resulting from the auditor reporting project, and to consider if any amendments are required due to NOCLAR. This project will be conducted in conjunction with NZAuASB.
2. This paper details the matters identified by the NZAuASB staff and AUASB Technical Group (ATG) which potentially require adjustment in the ISRE / ASRE 2410. Note that the NZAuASB considered these matters and agreed with the recommendations, at their board meeting on 24 October 2018.

### Conformity with ISRE 2410

3. Extant ASRE 2410 conforms with ISRE 2410, as well as including additional requirements and application material. As ISRE 2410 has not been updated since 2006 and is not in clarity format, they look completely different. The requirements are worded differently and the paragraph numbers do not align. Any proposed amendments to ASRE 2410 will be to the format and content of the review report and will still conform with ISRE 2410. Revised ASRE 2410 will include a conformity with ISRE 2410 statement and reconciliation as is in the extant.

### Auditor reporting matters

4. Re-order the review report:
  - (a) For consistency with ASA 700 *Forming an Opinion and Reporting on a Financial Report* ASRE 2410 paragraph 32 will be amended to require the order of the review report, for example opinion first. This has previously been discussed and agreed by the AUASB.

ATG Recommendation

Update paragraph 32 to require specific order of the review report consistent with ASA 700.

5. Those charged with governance responsibilities:
  - (a) ASA 700 paragraph 33 includes a requirement to include a section in the auditor's report called "Responsibilities of Management for the Financial Report" (or a term that is appropriate). There is no requirement in ASRE 2410 for a separate section in the review report. However there is a required statement (ASRE 2410 (32(d)) which is presented as a separate section in the ASRE 2410's illustration review reports, and therefore there is likely no change in practice.
  - (b) ASA 700 paragraph 34 – 36 specify what needs to be included in this section. Paragraph 34 (a) is a requirement of extant ASRE 2410. Paragraph 34 (b) is in relation to going concern and is not a requirement in extant ASRE 2410, however the preparer's requirements related to going concern are the same at the interim stage as at the annual reporting stage. We therefore consider that repeating management's responsibilities for going concern in the review report is appropriate.

ATG Recommendation:

Include a requirement to include a section titled "Responsibilities of Management for the Financial Report" and required content in ASA 700 paragraphs 34 to 36 in ED ASRE 2410.

6. Auditor's Responsibilities for the Audit of the Financial Report

- (a) ASA 700 requires the auditor's report to include a section titled "Auditor's Responsibilities for the Audit of the Financial Report". There is no requirement in ASRE 2410 for this to be a separate section of the review report, however there are requirements to include statements about the auditor's responsibilities which remain relevant. These are also presented as a separate section in the ASRE 2410's illustration review reports, and therefore there is likely no change in practice.
- (b) ASA 700 allows auditors to refer to the AUASB website instead of including the full description of their responsibilities in the audit report. As the auditor's responsibilities for a review are significantly different to those for an audit, the content of the auditor's responsibilities section will be less than that required under ASA 700.
- (c) The auditor's report now includes more about their responsibility in relation to going concern. ASA 700 (39) (b) (iv) requires the auditor to include their responsibilities to conclude on the appropriateness of management's use of the going concern basis of accounting etc. in the auditor's report. ASRE 2410 has no requirement to include the responsibilities in relation to going concern in the review report.

The auditor's responsibility in relation to going concern in ASRE 2410 (19) is to make enquiries about whether TCWG have changed their assessment of the entity's ability to continue as a going concern, and if as a result of enquires or other procedures they become aware of any events or conditions that cast doubt on this assessment to do further procedures in order to conclude on the effect on the review opinion ie. material uncertainty in relation to going concern, or a qualification.

ATG Recommendation:

- (i) Include a requirement for a section titled "Auditor's Responsibilities for the Review of the Financial Report" and keep the current responsibilities as required in extant ASRE 2410.
- (ii) Do not include an option to refer to the AUASB's website for the auditor's review responsibilities as these are not long, and importantly will assist with the users understanding of the scope of a review.
- (iii) Include in the auditor's responsibilities section the responsibility in relation to going concern. The following has been drafted based on ASRE 2410 (19) and ASA 700 (39) (iv) as follows:

Makes enquiries and performs review procedures 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 report or, if such disclosures are inadequate, to modify the conclusion. Our 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.

7. Material uncertainty related to going concern

- (a) The heading used to emphasize a material uncertainty related to going concern has been amended in ASA 700 and no longer refers to an Emphasis of Matter. Extant ASRE 2410 paragraph 40, includes a requirement to refer to an "emphasis of matter". The AUSAB have previously discussed and agreed that the terminology should be consistent with ASA 700 and the AUASB Bulletin included this issue and suggested that the term "Material uncertainty related to going concern – emphasis of matter" be used.
- (b) Also extant ASRE 2410 A51 and A52 erroneously refers to a "modified report" when including an emphasis of matters paragraph.

ATG recommendation

- (i) Change the requirement to use the term material uncertainty related to going concern instead of emphasis of matter to highlight a material uncertainty related to going concern.
- (ii) Removing the term ‘modified’ in relation to a Material uncertainty related to going concern or emphasis of matter.

8. Other Information Section

- (a) ASA 700 requires the audit report to include an other information section to provide transparency about the auditor’s responsibilities in relation to the other information.
- (b) Extant ASRE 2410 describes the auditor’s responsibilities in relation to the other information ie. includes a requirement to read the other information, however there is no reporting requirement.

ATG recommendation

At this stage the ATG recommends that the auditor’s responsibilities in relation to the other information not be required to be included in the review report for the following reasons:

- (i) We are aware of feedback that auditor’s find this reporting confusing and burdensome and in their view was not improving transparency.
- (ii) Feedback from the Audit Committee Chairs survey was did not indicate that this was an important inclusion in the auditor’s report.

Note that we will re-assess this after the IAASB’s post implementation review of the auditor reporting project which will provide feedback on the value of this reporting. Note that we will also receive feedback from Australian users via the FRC investor survey which is currently being conducted.

9. Key audit matters

- (a) Key audit matters are required to be communicated in auditor’s report of general purpose financial reports of listed entities. The ATG have been considering if it is appropriate to require auditors to include KAMs in review reports. The matters to consider are:
  - (i) The procedures required to be performed in a review engagement are considerably less and different to those of an audit.
  - (ii) Communicating KAMs is inconsistent with the auditor’s responsibilities and communication obligations (ASRE 2410.27 to 31) for a review engagement.
  - (iii) It may be misleading and confusing to refer to key audit matters in a review engagement report.
  - (iv) Is it appropriate to go ahead of the IAASB on this matter?

ATG Recommendation

For the reasons detailed above the ATG’s view the inclusion of any information in relation to KAMs should not be a requirement at this stage as there is insufficient information as to whether this would be valuable to users of the review report. This will be reconsidered after a post implementation review of the auditor reporting project has been completed by the IAASB, and if the IAASB consider updating ISRE 2410 for this.

Non-compliance with Laws and Regulations (NOCLAR)

- 10. ASRE 2400 was updated for conforming amendments made by the IAASB to clarify how existing requirements worked with the new NOCLAR framework. The IAASB did not make any conforming amendments to ISRE 2410 as a result of the NOCLAR.

11. 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.
12. Changes to ASRE 2410 will be based on the NOCLAR amendments to ASRE 2400. Based on this the changes to the requirements in ASRE 2410 will be limited to the section on communication with those charged with governance.
13. The changes made to the application material in ASRE 2400 will be considered to determine what amendments should be reflected in ASRE 2410, however where possible we suggest limiting the changes to the application material, and referring the auditor to ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report*.

#### Effective date

14. The ATG and the NZAuASB are considering an effective date of interim periods ending December 2019.

Question for the AUASB - Does the AUASB consider that this will provide enough lead in time?

#### Other matters

15. There may be changes necessary as the IAASB finalises the revisions to the risk assessment and quality control standards. These will be considered as consequential amendments once these standards are finalised.