



# 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

This Exposure Memorandum is to be in conjunction with the [Addendum](#).



## **Obtaining a Copy of this Explanatory Memorandum**

This Explanatory Memorandum is available on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au)

### **Contact Details**

Auditing and Assurance Standards Board  
Podium Level 14, 530 Collins Street  
Melbourne Victoria 3000 AUSTRALIA

Phone: (03) 8080 7400  
Fax: (03) 8080 7450  
E-mail: [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au)

**Postal Address:**  
PO Box 204, Collins Street West  
Melbourne Victoria 8007 AUSTRALIA

## **COPYRIGHT**

© 2019 Auditing and Assurance Standards Board (AUASB). The text, graphics and layout of this document are protected by Australian copyright law and the comparable law of other countries. Reproduction within Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source as being the AUASB.

Requests and enquiries concerning reproduction and rights for commercial purposes should be addressed to the Technical Director, Auditing and Assurance Standards Board, PO Box 204, Collins Street West, Melbourne, Victoria 8007 or sent to [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au). Otherwise, no part of this document may be reproduced, stored or transmitted in any form or by any means without the prior written permission of the AUASB except as permitted by law.

ISSN 2201-3644

**Explanatory Memorandum**

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

---

*Important Note and Disclaimer*

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

This 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.

## **CONTENTS**

Purpose .....	5
Background .....	5
Conformity with IAASB’s auditing standards .....	6
Key proposals contained in ED 01/19 .....	6
Exposure Draft Questions .....	8
Other Outreach Activities .....	9
Application.....	9
Comment Date .....	9
Website Resources.....	9

## **EXPLANATORY MEMORANDUM**

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

#### **Purpose**

1. The AUASB is seeking feedback from stakeholders on proposed amendments to ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410), which are detailed in Exposure Draft 01/19: ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity* (ED 01/19).
2. The aim of this Explanatory Memorandum is to provide stakeholders with information about ED 01/19, and the Auditing and Assurance Standards Board's (AUASB) approach to implementing this standard in Australia.

#### **Background**

3. 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.
4. 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 and is not in clarity format. An update to ISRE 2410 is not on the IAASB's current work program.
5. The AUASB re-issued ASRE 2410 in 2009 in clarity format, and made further conforming amendments in June 2011 and July 2013.
6. From December 2016 the auditor's report has been changed as a result of the AUASB's project to enhance the auditor's report to communicate more about the performance of audit.
7. The AUASB has received questions from stakeholders as to whether the new auditor reporting requirements impact the format and content of the auditor's review report in accordance with ASRE 2410.
8. 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. The AUASB issued a Bulletin [Auditor review reports – the impact of the new auditor reporting requirements](#) to provide guidance on this matter.
9. The AUASB discussed that currently there is inconsistency in auditor's review reports being issued by Australian auditors, 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. The AUASB agreed that it would be preferable to promote consistency in practice and it is appropriate to develop an exposure draft to incorporate the changes to the review standard as a result of the enhanced auditor's report.
10. Similar questions have been asked by New Zealand stakeholders and discussed by the New Zealand Auditing and Assurance Standards Board (NZAuASB).
11. 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.

## Explanatory Memorandum

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

---

12. 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).

#### Conformity with IAASB's auditing standards

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

14. Compelling reasons fall broadly into two categories: legal and regulatory; and principles and practices considered appropriate in maintaining or improving audit quality in Australia. Compelling reasons are further guided by the AUASB's policy of harmonisation with the standards of the NZAuASB.
15. 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 proposed amendments contained in ED 01/19 are mainly to the reporting requirements and do not substantially change the work performed by auditors when conducting a review of a financial report. The proposed amendments in ED 01/19 add to existing requirements of ISRE 2410 and consequently the AUASB considers that proposed ASRE 2410 conforms with ISRE 2410.

#### Key proposals contained in ED 01/19

16. The key proposals contained in ED 01/19 are 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 700<sup>1</sup>, ASA 705<sup>2</sup> and ASA 706<sup>3</sup>; 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*.
17. The proposed changes are:
- (a) To include reviews of financial reports prepared in accordance with a compliance framework explicitly within the scope of ED 01/19;
  - (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 those management /charged with governance and the auditor in relation to going concern. This is for consistency with the principles in the auditor's report under ASA 700;

---

<sup>1</sup> ASA 700 *Forming an Opinion and Reporting on the Financial Report*

<sup>2</sup> ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*

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

## Explanatory Memorandum

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

---

- (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. This is for consistency with ASA 570 *Going Concern* and to avoid confusion to users when switching between reading an auditor's report and a review report of a financial report.
18. Following the update to ASA 700, the auditor's report now includes enhanced disclosure about management's / those charged with governance responsibilities in relation to going concern. The requirement for preparers to make an assessment of the ability of an entity to continue as a going concern and whether the use of the going concern basis of accounting is appropriate, also applies when preparing interim financial reports<sup>4</sup>. The description of these management responsibilities in the auditor's review report is consistent with this.
19. As a result of the update to ASA 700, the auditor's report also includes enhanced disclosure about the auditor's responsibilities in relation to going concern. The AUASB considered the relevant requirement in ASA 700<sup>5</sup> and concluded that this description of the auditor's responsibilities in relation to going concern is greater than those currently required in ASRE 2410 paragraph 19 and are consistent with assurance associated with reasonable assurance, rather than limited assurance provided in a review engagement. The AUASB agreed the description of the auditor's responsibilities included in the auditor's review report should therefore continue to reflect the requirement of ASRE 2410 in relation going concern, to avoid any misunderstanding to the reader of the review report. Based on this ED 01/19 includes the following in relation to the description of the auditor's responsibility in the auditor's review report, which is contained in extant ASRE 2410 paragraph 19:
- "The auditor shall enquire 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, the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall:
- (a) 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) consider the adequacy of the disclosure about such matters in the financial report."
20. ASA 570 requires a heading "Material Uncertainty Related to Going Concern" to be used when the auditor concludes that a material uncertainty in relation to going concern exists and adequate disclosures have been made in the financial report. Extant ASRE 2410 is not consistent with this and requires this to be called an Emphasis of Matter, which is potentially confusing to users. ED 01/19 includes this amendment.
21. The AUASB considers 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 is not proposing 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*;

---

<sup>4</sup> AASB 101 *Presentation of Financial Statements*, paragraph 4

<sup>5</sup> ASA 700 *Forming an Opinion and Reporting on the Financial Report*, paragraph 39 (b) (iv)

## Explanatory Memorandum

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

---

- An Other Information section required by ASA 720 *The Auditor's Responsibility Relating to Other Information*.

#### Exposure Draft Questions

The AUASB is seeking comments on ED 01/19 from stakeholders on the following questions:

1. Do you agree with the scope and key proposals to incorporate the auditor's reporting requirements made to the auditor's report consistently into the auditor's review report?
2. Do you agree with the proposed amendments to incorporate conforming amendments as a result of the IAASB's project regarding non-compliance with laws and regulation (NOCLAR)?
3. Do you agree with including reviews of financial reports prepared in accordance with a compliance framework explicitly in the scope of ASRE 2410?
4. Do you agree with how the responsibilities of management for the financial report, and the auditor's responsibilities for the review of the financial report, are described in the auditor's review report? Refer to paragraph 18 and 19 for detail on the AUASB's deliberations.
5. Do you consider that there are any further amendments required to be made to ASRE 2410?
6. Do you agree with the proposed effective date? If not, please explain why not.
7. Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?
8. 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?
9. Are there any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
10. 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 standard? If significant costs are expected, the AUASB would like to understand:
  - a. Where these costs are likely to occur;
  - b. The estimate extent of costs, in percentage terms (relative to audit fees); and
  - c. Whether expected costs outweigh the benefits to the users of audit services?
11. Are there any other significant public interest matters that stakeholders wish to raise?

The AUASB ask that comments are sufficiently detailed and include whether stakeholders agree or do not agree with the proposed amendments. The AUASB welcome any other comments which are not specifically addressed by questions above. The AUASB regards both supportive and critical comments as essential to a balanced review of the proposed Auditing Standard on Review Engagements.

22. The conforming amendments as a result of the recent changes to ASA 250 are consistent with those made to ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is not the Auditor of the Entity* in May 2017.

## **Explanatory Memorandum**

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

---

#### **Other Outreach Activities**

23. The AUASB will conduct targeted outreach with specific users of ASRE 2410, in particular auditors of Listed Entities. The AUASB will also conduct a webinar to seek feedback on specific areas.

#### **Application**

24. 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**

25. Comments to the AUASB will close **9 August 2019**.
26. At the completion of the exposure period, the AUASB will consider stakeholders' submissions.

#### **Website Resources**

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

\* \*