

EXPOSURE DRAFT

ED 02/10

(May 2010)

**Proposed Auditing Standard
on Review Engagements
ASRE 2415
*Review of a Financial Report
– Company Limited by
Guarantee***

Issued for Comment by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

AUASB Information Note

This exposure draft has been developed in the context of the proposed amendments to the *Corporations Act 2001* (the Act) and *Corporations Regulations 2001* (the Regulations) in respect of financial reporting requirements of certain companies limited by guarantee as outlined in Corporations Amendment (Corporate Reporting Reform) Bill 2010.

As at the date of issuance of this exposure draft, the proposed amendments to the Act and the Regulations are currently under consideration and have not been enacted by the Australian Parliament. Consequently, readers are advised that the AUASB may make future amendments and other editorial changes to this exposure draft in response to any final changes made to the Act and the Regulations by the Parliament.

Commenting on this Exposure Draft

Comments on this Exposure Draft should be forwarded so as to arrive by no later than 24 June 2010. Comments should be addressed to:

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A copy of all non-confidential submissions will be placed on public record on the AUASB website: www.auasb.gov.au.

Obtaining a Copy of this Exposure Draft

This Exposure Draft is available on the AUASB website: www.auasb.gov.au

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CONTENTS

PREFACE

AUTHORITY STATEMENT

	<i>Paragraphs</i>
Application	1
Operative Date	2
Introduction	
Scope of this Auditing Standard	3-4
Objective	5
Definitions	6-8
Requirements	
Applicable Standards	9-11
General Principles	12-13
Application and Other Explanatory Material	
Applicable Standards	A1-A2
General Principles	A3
Conformity with International Standards on Auditing	
Appendix 1: Example Auditor’s Review Report	

PREFACE

Reasons for Issuing ED 02/10

The Auditing and Assurance Standards Board (AUASB) is proposing to issue Auditing Standard on Review Engagements ASRE 2415 *Review of a Financial Report – Company Limited by Guarantee* pursuant to the requirements of the legislative provisions explained below.

The AUASB is an independent statutory board of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended. Under section 336 of the *Corporations Act 2001*, the AUASB may make Australian Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Under the Corporations Amendment (Corporate Reporting Reform) Bill 2010, it is proposed that the *Corporations Act 2001* and related Regulations be amended to enable certain companies limited by guarantee to elect for their financial report for a financial year to be reviewed instead of audited. Accordingly, the AUASB proposes to issue ASRE 2415 as an Auditing Standard under section 336 of the Act, to reflect the proposed changes to the *Corporations Act* and related Regulations.

Proposed Auditing Standard on Review Engagements ASRE 2415
Review of a Financial Report – Company Limited by Guarantee

Main Proposals

This proposed Auditing Standard on Review Engagements establishes requirements and provides application and other explanatory material regarding a review of a financial report for a financial year of certain companies limited by guarantee; and the form and content of the review report.

Proposed ASRE 2415 is to be made under the *Corporations Act 2001* for Australian legislative purposes.

Proposed Operative Date

It is intended that this proposed Auditing Standard on Review Engagements will be operative for financial reporting years ending on or after 30 June 2010.

Early adoption is not permitted.

New Auditing Standard

This proposed Auditing Standard on Review Engagements is a new pronouncement of the AUASB and accordingly does not supersede an existing Auditing Standard.

This Auditing Standard on Review Engagements directs the auditor to the applicable existing AUASB Standard when conducting a review of a financial report for a financial year for certain companies limited by guarantee.

In response to the proposed amendments to the *Corporations Act 2001* (the Act) relating to companies limited by guarantee, as outlined in Corporations Amendment (Corporate Reporting Reform) Bill 2010, the AUASB has decided not to revise its existing Auditing or Review Engagements Standards at this time. The AUASB has decided that reference to its existing Standards on Review Engagements is appropriate for the time being. It is the intention of the AUASB that ASRE 2415 is a transitional standard that will be revised at a later date.

Further, the AUASB recognises the current project of the International Auditing and Assurance Standards Board (IAASB) to revise ISRE 2400 *Engagements to Review Financial Statements*. In accordance with its strategic direction, the AUASB will determine the appropriate course of action once the revised ISRE 2400 is finalised and issued by the IAASB.

Proposed Auditing Standard on Review Engagements ASRE 2415
Review of a Financial Report – Company Limited by Guarantee

Request for Comments

Comments are invited on this Exposure Draft of the proposed issuance of Auditing Standard on Review Engagements ASRE 2415, *Review of a Financial Report – Company Limited by Guarantee* by no later than 24 June 2010. The AUASB is seeking comments from respondents on the following questions:

1. Have applicable laws and regulations been appropriately addressed in the proposed standard?
2. Are there any references to relevant laws or regulations that have been omitted?
3. 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?
4. What, if any, are the significant costs to/benefits for auditors and the business community arising from compliance with the requirements of this proposed Auditing Standard on Review Engagements? If there are significant costs, do these outweigh the benefits to the users of audit/review services?
5. Are there any other significant public interest matters that constituents wish to raise?

The AUASB prefers that respondents express a clear opinion on whether the proposed Auditing Standard on Review Engagements, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the Auditing Standard on Review Engagements.

Proposed Auditing Standard on Review Engagements ASRE 2415
Review of a Financial Report – Company Limited by Guarantee

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard on Review Engagements ASRE 2415 *Review of a Financial Report – Company Limited by Guarantee* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

AUDITING STANDARD ON REVIEW ENGAGEMENTS ASRE 2415

Review of a Financial Report – Company Limited by Guarantee

Application

1. This Auditing Standard on Review Engagements applies to a review of a financial report for a financial year for a company limited by guarantee in accordance with the *Corporations Act 2001* (the Act).

Operative Date

2. This Auditing Standard on Review Engagements (Auditing Standard) is operative for financial reporting periods ending on or after 30 June 2010.

Introduction

Scope of this Auditing Standard on Review Engagements

3. This Auditing Standard deals with the responsibilities of the auditor to review the financial report of a company limited by guarantee that has elected, under section 301(3) of the Act, to have its financial report reviewed instead of audited. It also deals with the form and content of the review report.¹
4. This Auditing Standard does not apply to the review of a half-year financial report under the Act. Refer ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*.

Objective

5. The objective of the auditor, is to plan and perform the review of a financial report prepared by a company limited by guarantee, to enable the auditor to express a conclusion whether, on the basis of the review, anything has come to the auditor's attention that causes the auditor to believe that the financial report is not prepared, in all

¹ See Appendix 1 for an illustrative example review report.

Proposed Auditing Standard on Review Engagements ASRE 2415
Review of a Financial Report – Company Limited by Guarantee

material respects, in accordance with the applicable financial reporting framework

Definitions

6. For purposes of this Auditing Standard, the following terms have the meanings attributed below:
- (a) A company limited by guarantee means a company limited by guarantee as defined in section 285A of the Act.
 - (b) A registered company auditor includes an individual who meets the requirements of section 324BE of the Act.
7. The term “auditor”, as used in this Auditing Standard, refers to a registered company auditor.
8. The term “financial report”, as used in this Auditing Standard, refers to a financial report for a financial year. A financial report for a financial year may be for a period that is greater than or less than 12 months.

Requirements

Applicable Standards

Company Previously Audited

9. When a company limited by guarantee elects to have its financial report reviewed instead of audited, an auditor who has conducted an audit of the previous financial report of the company in accordance with the Act and the Australian Auditing Standards, shall, in the first reporting period, conduct the review in accordance with ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*.² (Ref: Para. A1)

Company Not Previously Audited by the Auditor

10. When a company limited by guarantee elects to have its financial report reviewed instead of audited, an auditor who has not conducted an audit of the previous financial report of the company in

² See ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity (Compiled)*, issued August 2008. For financial reporting periods commencing on or after 1 January 2010, see ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, issued October 2009.

Proposed Auditing Standard on Review Engagements ASRE 2415
Review of a Financial Report – Company Limited by Guarantee

accordance with the Act and the Australian Auditing Standards, shall conduct the review in accordance with ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity*.³ (Ref: Para. A2)

11. For purposes of this Auditing Standard, mandatory requirements under ASRE 2400 are identified in **bold-type** in that standard.⁴

General Principles

12. The auditor shall comply with relevant ethical requirements relating to the review of the financial report.⁵ (Ref: Para. A3)
13. The auditor shall implement quality control procedures that are applicable to the individual engagement.⁶

* * *

³ See ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity*, issued August 2008.

⁴ See ASA 100 *Preamble to AUASB Standards*, paragraph 9(a).

⁵ See ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

⁶ See ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information* which may be helpful in determining quality control procedures applicable to a review engagement.

Proposed Auditing Standard on Review Engagements ASRE 2415
Review of a Financial Report – Company Limited by Guarantee

Application and Other Explanatory Material

Applicable Standards

Company Previously Audited

- A1. At the time of the amendments to the Act there will be companies limited by guarantee that have been in existence for some time and will have appointed an auditor. Where that auditor has conducted an audit of the company's previous financial report, that auditor will have obtained an understanding of the company and its environment, including the company's internal control, in accordance with the Australian Auditing Standards. Accordingly, the auditor conducting a review, does so in accordance with ASRE 2410.⁷ ASRE 2410 is to be read in conjunction with *ASA 100 Preamble to AUASB Standards* or *ASA 101 Preamble to Australian Auditing Standards* as applicable. (Ref: Para. 10)

Company Not Previously Audited by the Auditor

- A2. A company limited by guarantee may engage an auditor, who has not conducted an audit of the company's previous financial report, to conduct a review of its financial report. In such cases, that auditor will not have recently obtained an understanding of the company and its environment, including the company's internal control, through compliance with Australian Auditing Standards. Accordingly, that auditor conducts the review in accordance with ASRE 2400.⁸ ASRE 2400 is to be read in conjunction with *ASA 100 Preamble to AUASB Standards*. (Ref: Para. 11)

General Principles

- A3. When complying with the fundamental ethical principles in accordance with ASRE 2400, an auditor with no previous engagement experience with the company, pays particular attention to the principle of professional competence and due care. (Ref: Para. 13)

⁷ See ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity (Compiled)*, issued August 2008. For financial reporting periods commencing on or after 1 January 2010, refer ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, issued October 2009.

⁸ See ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity*, issued August 2008.

Proposed Auditing Standard on Review Engagements ASRE 2415
Review of a Financial Report – Company Limited by Guarantee

Conformity with International Standards on Auditing

This Auditing Standard on Review Engagements has been made for Australian legislative purposes and accordingly there is no equivalent International Standard on Review Engagements (ISRE) issued by the International Auditing and Assurance Standards Board (IAASB).

Compliance with this Auditing Standard does not affect compliance with the ISREs or International Standards on Auditing (ISAs).

Proposed Auditing Standard on Review Engagements ASRE 2415
Review of a Financial Report – Company Limited by Guarantee

Appendix 1

(Ref: Para. 5)

AUASB Information Note

This exposure draft has been developed in the context of the published proposed amendments to the *Corporations Act 2001* (the Act) and *Corporations Regulations 2001* (the Regulations) in respect of financial reporting requirements of certain companies limited by guarantee. At the date of this exposure draft, the proposed amendments to the Act and the Regulations have not been fully considered and approved by the Australian Parliament. Readers are advised that the AUASB may make future amendments and other editorial changes to this exposure draft, including the example auditor's review report (Example 1) below, in response to any changes made to the proposed amendments to the Act and the Regulations.

EXAMPLE AUDITOR’S REVIEW REPORT

The following example auditor’s review report is to be used as a guide only and will need to be adapted according to the review engagement requirements and circumstances.

Example 1: Financial report of a company limited by guarantee prepared under the *Corporations Act 2001*. The financial reporting framework is designed to achieve fair presentation.

EXAMPLE OF AN UNMODIFIED REVIEW REPORT

INDEPENDENT AUDITOR’S REVIEW REPORT

To the members of [name of company]

Report on the Financial Report

We [I]⁹ have reviewed the accompanying financial report of [name of company], which comprises the statement of financial position as at 30 June 20XX, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors’ declaration.¹⁰

Directors’ Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our [My] responsibility is to express a conclusion on the financial report based on our [my] review. We [I] conducted our [my] review in accordance with Auditing Standard on Review Engagements ASRE 2415 *Review of a Financial Report - Company Limited by Guarantee*, in order to state whether,

⁹ When an individual is taken to be a registered company auditor under section 324BE of the Act, the auditor’s report is to be written in singular form.

¹⁰ When the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the reviewed financial report is presented.

Proposed Auditing Standard on Review Engagements ASRE 2415
Review of a Financial Report – Company Limited by Guarantee

on the basis of the procedures described, we [I] have become aware of any matter that makes us [me] believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 30 June 20XX and its performance for the year ended on that date; and complying with the Australian Accounting Standards and *Corporations Regulations 2001*. ASRE 2415 requires that we [I] comply with the ethical requirements relevant to the review of the financial report.

A review of a financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us [me] to obtain assurance that we [I] would become aware of all significant matters that might be identified in an audit. Accordingly, we [I] do not express an audit opinion.

Conclusion

Based on our [my] review, which is not an audit, we [I] have not become aware of any matter that makes us [me] believe that the financial report of [name of company] is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the company's financial position as at 30 June 20XX and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and *Corporations Regulations 2001*.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the review report will vary depending on the nature of the auditor's other reporting responsibilities].

[Auditor's signature]¹¹

[Date of the auditor's review report]¹²

[Auditor's address]

¹¹ The auditor's review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the individual auditor as appropriate.

¹² The date of the auditor's report is the date the auditor signs the report.