

ASRE 2410
(October 2009)

Explanatory Statement

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

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



Australian Government

Auditing and Assurance Standards Board

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Explanatory Statement ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*

Reasons for Issuing Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* pursuant to the requirements of the legislative provisions and the Strategic Direction 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 (ASIC Act). Under section 336 of the *Corporations Act 2001* (the Act), the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the International Auditing and Assurance Standards Board (IAASB) for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards. The IAASB has undertaken a programme to redraft, and in some cases, revise, in “clarity” format, the entire suite of ISAs. Accordingly, the AUASB has decided to revise and redraft the Australian Auditing Standards using the equivalent redrafted ISAs.

ASRE 2410 is an Auditing Standard made under the *Corporations Act 2001*. Consequently, the AUASB has redrafted the extant Auditing Standard, ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity* in a format that is consistent with the other revised and redrafted Australian Auditing Standards operative for financial reporting periods commencing on or after 1 January 2010. A further revision of this Auditing Standard will occur at a later date, once the IAASB undertakes a revision of its equivalent International Standard.

The Auditing Standard conforms with ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* to the extent that ISRE 2410 deals with the review of financial statements by the auditor of the entity.

Explanatory Statement ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*

Operative Date

ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* is operative for financial reporting periods commencing on or after 1 January 2010.

Purpose of Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*

The purpose of the Auditing Standard on Review Engagements is to establish requirements and to provide application and other explanatory material regarding the responsibilities of an auditor of an entity when engaged to undertake a review of a financial report and on the form and content of the auditor's review report.

Main Features

The Auditing Standard:

- (a) describes the general principles of a review of a financial report;
- (b) sets out the requirements on agreeing the terms of engagement;
- (c) details the procedures for a review of a financial report;
- (d) lists the matters to be included in written representations that an auditor seeks to obtain from management, and where appropriate, those charged with governance;
- (e) stipulates the matters an auditor communicates to management and those charged with governance;
- (f) details the form and content of the auditor's review report;
- (g) describes the circumstances under which the auditor's review report is to be modified and the type of modification applicable;
- (h) sets out requirements regarding going concern and significant uncertainty; and
- (i) describes the auditor's documentation requirements.

Explanatory Statement ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*

Preamble

ASRE 2410 is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied.

Process of making Australian Auditing Standards

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

In implementing the FRC's Strategic Direction, the AUASB has undertaken a process of revision and redrafting of the Australian Auditing Standards that has:

- updated the form, layout and content of the Australian Auditing Standards;
- addressed the legal enforceability of mandatory obligations;
- maintained clarity of the auditor's obligations;
- incorporated appropriate references to Australian laws and regulations;
- clearly identified, by use of the prefix "Aus", AUASB additions to paragraphs in the Requirements or the Application and Other Explanatory Material; and
- included other amendments as necessary.

Consultation Process prior to issuing this Auditing Standard on Review Engagements

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard on Review Engagements. Exposure Draft ED 20/09 *Proposed Auditing Standard on Review Engagements: Review of a Financial Report Performed by the Independent Auditor of the Entity* (Re-issuance of ASRE 2410), was issued on 19 June 2009 with a 30 day comment period.

As an integral part of its consultation with the public, the AUASB sought comments on specific questions including:

- the completeness and accuracy of references in the Auditing Standard to relevant laws and regulations;
- the significant costs, if any, and benefits, of compliance with any additional Requirements under the Auditing Standard; and
- whether or not there exist any matters of public interest affecting the issuance of the Auditing Standard.

Submissions were received by the AUASB and these were considered as part of the development and finalisation of the Auditing Standard on Review Engagements.

Regulation Impact Statement

A *Regulation Impact Statement* (RIS) has been prepared in connection with the redrafting of Australian Auditing Standards in “clarity” format, including ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*.

The RIS has considered both the expected benefits and expected costs of the introduction of clarified auditing standards, including comments provided by stakeholders during the redrafting process. It concluded that expected benefits to users of audit services, users of audit reports, auditors and the Australian economy in general are, on balance, likely to outweigh expected costs.

Main Differences from ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity* (April 2006, as amended)

The main differences between the Auditing Standard on Review Engagements and the Auditing Standard on Review Engagements that it supersedes, ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity* (April 2006, as amended), are:

1. Auditing Standard on Review Engagements ASRE 2410 is written in the “clarity” format using the extant Standard on Review Engagements, ASRE 2410 (04/06) as the underlying standard. The format, layout, and paragraph numbering styles are different from the extant Auditing Standard on Review Engagements.
2. The following requirement included in the Auditing Standard on Review Engagements is in part, or full, additional to the extant Auditing Standard on Review Engagements:
 - (a) The auditor shall, prior to agreeing the terms of the engagement, determine whether the financial reporting framework is acceptable and obtain agreement from management and, where appropriate, those charged with governance, that it acknowledges and understands its responsibility:
 - for the preparation and fair presentation of the financial report;
 - for such internal controls as management and, where appropriate, those charged with governance, deems necessary to enable the preparation of the financial report that is free from material misstatement; and
 - to provide the auditor with:
 - ◆ access to information relevant to the preparation of the financial report;

**Explanatory Statement ASRE 2410 *Review of a Financial Report
Performed by the Independent Auditor of the Entity***

- ◆ additional information that the auditor may request for the purposes of the review engagement; and
- ◆ unrestricted access to persons from whom the auditor determines it necessary to obtain evidence. (Ref: Para. 11)