



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **5.**

Meeting date: 6 March 2019

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

Date prepared: 26 February 2019

Prepared by: Anne Waters – AUASB Senior Project Manager

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 were 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 current work 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 Auditor Reporting and NOCLAR 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.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

Matters to Consider

Part A – Matters for the AUASB attention

Compliance frameworks

6. Extant ASRE 2410 is for reviews of a financial report prepared in accordance with an applicable financial reporting framework designed to achieve fair presentation. Extant ASRE 2410 does not consider compliance frameworks. Note that whilst ASRE 2410 doesn't include compliance frameworks they are not excluded from its scope. NZ SRE 2410 explicitly includes compliance frameworks.
7. By far the majority of engagements performed under ASRE 2410 are reviews of half year financial report of listed entities, which are prepared in accordance with a fair presentation framework. Reviews of financial reports prepared in accordance with a compliance framework are not common, but do occur. An example is a review of a financial report prepared under a sale contract which prescribes a specific accounting treatment.
8. ASRE 2405¹ is used for reviews of other historical financial information which are often extracts from a financial report prepared under a compliance framework. Therefore in practice auditors can use the compliance opinion in ASRE 2405. New Zealand does not have an equivalent to ASRE 2405.
9. The ATG's view is that it is not necessary to explicitly include compliance frameworks in the scope of ASRE 2410 and recommend this is not included in ED 05/19 as:
 - (a) reviews of financial reports prepared in accordance with a compliance framework are not very common, and ASRE 2405 provides guidance and the wording of the review opinion to assist auditors;
 - (b) we are not aware of this being raised as an issue by stakeholders in the past.

Question for the AUASB

Do you agree with the ATG's recommendation in paragraph 9?

Quality control procedures

10. 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 1² and ASA 220³ include guidance that may be helpful.
11. Extant NZ SRE 2410 also requires compliance with ISA 220. This is an existing difference between ASRE 2410 and NZ SRE 2410.
12. 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.

¹ ASRE 2410 *Review of Historical Financial Information Other than a Financial Report*

² 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*

³ ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*

Question for the AUASB

Do you agree with the ATG's recommendation in paragraph 11?

Other information

13. The AUASB previously agreed not to require an Other Information section in the auditor's review report and ED 05/19 has been drafted on that basis. However the ATG have been considering how to provide guidance if there is an uncorrected error in the other information.
14. 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) and refers to ASA 706⁴ and ASA 720⁵ for guidance. ED 05/19 has removed the reference to ASA 720 in this paragraph as under ASA 720 this would be reported in the other information paragraph. ED 05/19 retains the guidance to report as an OMP. Refer to question in 15b.
15. A question on whether stakeholders agree with excluding the reporting of other information in the review report is included in ED 05/19.

Questions for the AUASB

- a. 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?

- b. The ATG considered whether for consistency with the auditor's report if there is an uncorrected material error in the other information it is appropriate to report as an Other Information paragraph. Or leave the existing guidance to use OMP? Either options would be guidance and auditors can elect to report as they see appropriate.

Does the AUASB agree to leave the application material guidance to report as an OMP?

NOCLAR

16. 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.
17. 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.
18. 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.
19. 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.

⁴ ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

⁵ ASA 720 *The Auditor's Responsibilities Relating to Other Information*

Question for the AUASB

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

Review report

20. ED 05/19 paragraphs 32 to 38 have been updated to include the detailed requirements in relation to the ordering and wording in the review report.
21. ASA 700 requires the independence statements to be included in the Basis for Conclusion section of the auditor's report and requires the inclusion of the ethical requirements as well. ED 05/19 has been drafted consistent with this. This is different to the illustrations in extant 2410 which have a separate section with the heading "Independence" and is different to existing practice. Refer to the illustrative auditor review reports Basis for Conclusion section.

Question for the AUASB

Do you agree with the wording in the Basis for Conclusion section of the review report?

Modified review opinions

22. ED 05/19 paragraphs 39 – 47 have been updated to comply with ASA 706.

Going concern

23. ED 05/19 paragraph 48 has been updated to change the requirement from an emphasis of matter to a Material Uncertainty Related to Going Concern.
24. ED 05/19 paragraph 50 has been amended and now relates to any other matters which may require an emphasis of matter.

Operative date

25. The operative date included in ED 05/19 is for financial reporting periods commencing on or after 1 July 2019, with early adoption permitted. This will require the new review report format to be used for interim reporting at December 2019 as the half year is a distinct 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

26. If ED 05/19 is approved for issue by the AUASB at this meeting, the ATG propose that it is issued by 22 March 2019 for a 60 day comment period. This will allow the final standard to be considered for approval by the AUASB at its meeting on 12 June 2019 and released shortly after. ED 05/19 will be included in the Quality Management roundtables.

Part B – NZAuASB

27. This project is being conducted in conjunction with the NZAuASB with the objective of issuing standards with consistent principles. The NZAuASB approved (subject to the AUASB's considerations of ED 05/19) their ED at its recent February 2019 meeting. The proposed changes to NZ SRE 2410 are the same as we are proposing in ED 05/19.

Part C – “Compelling Reasons” Assessment

28. N/A

Actions for the AUASB

29. Consider the questions detailed above.
30. Review the draft ED05/19 Explanatory Memorandum. Specifically are there any other questions to be included for our stakeholders?
31. Review ED 05/19 ASRE2410. Track changes and clean versions have been provided. The ATG suggest the AUASB review:
- (a) The track changes version (Agenda item 5.1.2_ED05/19_ASRE2410_trackchanges) for the requirements and application material as the changes are not extensive, and this also includes comments which explain the changes.
 - (b) The clean version (Agenda item 5.1.3_ED05/19_ASRE2410_cleanversion) for the illustrative audit reports as the re-ordering makes the track changes difficult to follow.
32. Based on the above do you approve ED 05/19 ASRE 2410 for issue?

Material Presented

Agenda item 5.1.0_BMSP_ED05/19_ASRE2410

Agenda item 5.1.1_ED05/19_ExplanatoryMemorandum

Agenda item 5.1.2_ED05/19_ASRE2410_trackchanges

Agenda item 5.1.3_ED05/19_ASRE2410_cleanversion