



March 2019

Explanatory Memorandum

Exposure draft 05/19: Proposed Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Auditor of the Entity

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



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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.

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EXPLANATORY MEMORANDUM

Exposure Draft 05/19: Proposed Auditing Standard on Review Engagements 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 which are detailed in Exposure Draft 05/19: Proposed Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity* (ED 05/19).
2. The aim of this Explanatory Memorandum is to provide stakeholders with information about ED 05/19, and the Auditing and Assurance Standards Board's (AUASB) approach to implementing this standard in Australia.

Exposure Draft Questions

3. Comments are invited on this Exposure Draft of the proposed re-issuance of ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity* by no later than 20 May 2019. The AUASB is seeking comments from respondents on the following questions:
 1. Do you agree with the proposals to incorporate the reporting requirements made to the annual report consistently into the interim review report?
 2. Do you agree with the scoping of these proposals that they do not require the communication of key review matters, or an update on the status of key audit matters from the previous audit report, for review reports?
 3. Do you agree with the scoping of these proposals that they do not require the inclusion of an Other Information section in the interim review report?
 4. Do you agree with requiring the auditor's responsibilities section to be included in the review report, and not providing an option to include parts of this on the AUASB website?
 5. Do you agree with the proposed amendments to incorporate conforming amendments as a result of NOCLAR?
 6. Do you consider that there are any further amendments required to be made to ASRE 2410?
 7. Do you agree with the proposed effective date? If not, please explain why not.
 8. Have applicable laws and regulations been appropriately addressed in the proposed standard?
 9. Are there any references to relevant laws or regulations that have been omitted?
 10. 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?
 11. 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 there are significant costs, do these outweigh the benefits to the users of audit services?
 12. Are there any other significant public interest matters that constituents wish to raise?

Background

4. The AUASB has a strategic objective to develop, issue and maintain high quality Australian Auditing Standards. The AUASB takes input received from Australian constituents into account when developing Australian Auditing Standards.
5. International Standard on Review Engagements 2410 (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.
6. The AUASB re-issued ASRE 2410 in 2009 in clarity format, and made further conforming amendments in June 2011 and July 2013.
7. From December 2016 the auditor's report was changed as a result of the AUASB's project to enhance the auditor's report to communicate more about the audit that was performed.

8. We have received questions from stakeholders as to whether the new auditor reporting requirements impact the format and content of the review report in accordance with ASRE 2410.
9. 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.
10. The AUASB have discussed that currently there is inconsistency in 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.
11. Similar questions have been asked by New Zealand stakeholders and the NZAuASB 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.
12. Consistent with the AUASB’s principle of convergence with New Zealand, the AUASB agreed to develop an ED in Australia concurrently with the NZAuASB.
13. 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

14. 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
15. 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 New Zealand Auditing and Assurance Standards Board (NZAuASB).
16. Extant Australian ASRE 2410 has been revised and updated several times since equivalent ISRS 2410. Extant ASRE 2410 conforms with International Standard on Review Engagements ISRE 2410. The amendments contained in ED 05/19 are mainly to the reporting requirements do not substantially change the work performed by auditors when conducting a review of a financial report. ED 05/19 conforms with ISRE 2410.

Key proposals contained in ED 05/19

17. The key proposals contained in ED 05/19 are to:
 - (a) align the review report to the enhanced auditor’s report ie. alignment with ASA 700 *Forming an Opinion and Reporting on the Financial Report*; and
 - (b) conforming amendments as a result of recent changes to ASA 250 *Considerations of Laws and Regulations in the Audit of a Financial Report*.
18. The proposed changes are:

- a) Reorder the review report so that the conclusion comes first, followed by a basis for conclusion. This is for consistency with the auditor's report;
 - b) A description of the respective responsibilities of those charged with governance and the auditor in relation to going concern required to be included in the review report;
 - c) The statement about the auditor's independence is required to include the fulfilment of relevant ethical requirements.
 - d) Referring to 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 extant ASRE 2410.
19. The auditor's report now includes enhanced disclosure about preparers and auditor's responsibilities in relation to going concern. The requirement when making an assessment of the ability of an entity to continue as a going concern also apply when preparing interim financial statements. Similarly, the auditor is required by extant ASRE 2410 to make enquiries as to whether those charged with governance have changed their assessment of the entity's ability to continue as a going concern. The AUASB consider it appropriate to highlight those responsibilities in the review report.
20. Changes to ASA 570 require a new 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. This is potentially confusing to users.
21. 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*;
 - An Other Information section required by ASA 720 *The Auditor's Responsibility Relating to Other Information*.
22. The reporting of key audit matters in a review report is not considered appropriate in the context of the work that is required to be performed in a review engagement.
23. Extant ASRE 2410 already includes requirements in relation to the auditor's responsibility for Other Information, however does not require this to be communicated in the review opinion. The AUASB is seeking stakeholder feedback on whether there should be a requirement to describe this responsibility and the status of the auditor's consideration in relation the Other Information.
24. 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.

Other Outreach Activities

25. In addition to the public exposure process, during April and May 2019, the AUASB will conduct targeted outreach and a webinars.

Application

26. The effective date of the standard would be for financial reporting periods commencing on or after 1 July 2019, with early adoption permitted.

General information

27. ED 05/19 has been provided in a final “clean” with a link to a track changes version to assist stakeholders in identifying the amendments.
28. ED 05/19 will be open to constituents for a **60 day comment period** closing on 20 May 2019.
29. At the completion of the exposure period, the AUASB will consider constituents’ submissions

Website Resources

30. The AUASB welcomes constituents’ input to the development of Australian Auditing Standards and regards both supportive and critical comments as essential to a balanced review of the proposed standards. Constituents are encouraged to access the websites of the [AUASB](#) and the [IAASB](#) to obtain further information.

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