



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **5.1.0**

Meeting Date: 11 September 2019

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

Date Prepared: 4 September 2019

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Action Required

For Information Purposes Only

Agenda Item Objectives

1. For the AUASB to consider the description of the auditor's responsibility in relation to going concern in the review report included in NZAuASB's ED;
2. To provide an initial update to the AUASB on the submissions received regarding ED 01/19 ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity* (ED 01/19); and
3. Discuss the way forward, including the approach with finalising this standard and working with NZAuASB.

Background

4. At its meeting on 12 September 2018 the AUASB agreed consistent with the principle of harmonisation with New Zealand¹, to update ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410) concurrently and consistently with the NZAuASB's equivalent standard, NZ SRE 2410.
5. Importantly it was agreed the scope of this update is limited to Auditor Reporting conforming amendments to facilitate consistency in reporting, and NOCLAR.

¹ The AUASB and the NZAuASB have a mandate to harmonise standards where applicable, unless there is a compelling reason not to. Compelling reasons for differences between Australian and New Zealand standards are where:
(a) Different regulatory requirements apply; and/or
(b) Different practices are considered appropriate (including the use of significant terminology).

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.

6. The AUASB approved ED 01/19 at its meeting on 16 April 2019 and issued [Explanatory Memorandum and ED 01/19](#) on 16 May 2019, seeking feedback from stakeholders on proposed amendments to ASRE 2410.
7. At the time of the AUASB issuing ED 01/19 the NZAuASB were still deliberating on its proposed amendments to NZ SRE 2410 and had not considered the wording the AUASB had included in ED 01/19 on how to describe, in the auditor's review report, the auditor's responsibility relating to going concern. The NZAuASB considered this matter at its 5 June 2019 meeting, then again at a teleconference on 4 July 2019, then released their equivalent Exposure ED NZAuASB 2019-1 on 12 July 2019.
8. The AUASB and the NZAuASB have alternate views on how to describe, in the auditor's review report, the auditor's responsibility relating to going concern. Refer to paragraph 10 and following for analysis of this matter.
9. The AUASB issued an [Addendum to Explanatory Memorandum ED 01/19](#) on 19 July 2019 to:
 - (a) Communicate to Australian stakeholders the different options presented by the AUASB and the NZAuASB on how to describe in the auditor's review report the auditor's responsibility relating to going concern; and
 - (b) Request additional feedback on this issue, in order to inform the AUASB in its deliberations on the proposed amendments to ASRE 2410.

Matters to consider

Description of the auditor's responsibilities in relation to going concern

10. As the AUASB have not considered the final wording in NZAuASB's ED the following provides the background and technical analysis on this issue.
11. At its meeting on 5 December 2018 the AUASB first considered how to describe the auditor's responsibility in relation to going concern in the review report. The [ASRE 2410-Matters for the AUASB Consideration](#) paper included very early draft wording which was based on extant ASRE 2410 and ASA 700² (39) (iv):

Makes enquiries and performs review procedures about the appropriateness of the use of the going concern basis of accounting. If the auditor considers that a material uncertainty exists, the auditor is required to draw attention in the review report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify the conclusion. Our conclusions are based on the evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
12. At its meeting on 6 March 2019 the AUASB considered the first draft of ED 01/19 which included slightly different wording from above (ie. conclude rather than consider).

The auditor makes enquiries and performs review procedures about the appropriateness of the use of the going concern basis of accounting. If the auditor ~~considers~~ concludes that a material uncertainty exists, the auditor is required to draw attention in the review report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify

² ASA 700 *Forming an Opinion and Reporting on a Financial Report*

the conclusion. Our conclusions are based on the evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

13. At this meeting the AUASB:
- (a) discussed that ASA 700 requires the description of the auditor's responsibility in relation to going concern in the annual auditor's report to the auditor's responsibility to conclude on the appropriateness of management's use of the going concern basis of accounting, and the reporting implications if the auditor concludes that a material uncertainty exists;
 - (b) discussed that the original wording in draft ED 01/19 was not appropriate and goes beyond the responsibility under ASRE 2410 for an interim review engagement. Specifically the wording in ASA700 and to "conclude" is consistent with the procedures for obtaining reasonable assurance when applying ASA 570³;
 - (c) agreed that it is in the public interest for users of financial reports to understand the difference between limited assurance versus reasonable assurance, and that the procedural requirement in ASRE 2410 (19) be included in the review report as this more accurately describes the auditor's responsibility in relation to going concern; and
 - (d) it was not necessary to include the impact on the review report if a material uncertainty exists consistent with ASA 700, as this will make the section too long and place too much emphasis on this matter.

The AUASB also discussed that the underlying requirements in ASRE 2410 in relation to going concern have not been updated for some time and did not have as many requirements as those in ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity*. However the scope of the update to ASRE 2410 did not include changing underlying requirements, and it is appropriate for ASRE 2400 to include more requirements as the scope is different as it is a stand alone engagement relating to annual reporting period where there is no related audit of the entity. The AUASB agreed it was not appropriate to amend the underlying procedures in ASRE 2410 before this has been considered internationally, and the IAASB amend ISRE 2410.

14. Based on this the AUASB's again considered ED 01/19⁴ at its April 2019 meeting, and approved the following description of the auditor's responsibility in relation to going concern to be included in the auditor's review report, which is a direct reflection and an exact replication of the requirement contained in extant ASRE 2410 paragraph 19:

"We make enquiries about 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, we become aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern:

- (a) *we 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) *we consider the adequacy of the disclosure about such matters in the financial report."*
15. The NZAuASB considered this wording and concluded that they did not think this was appropriate to include the procedures as this was not adequately describing the auditor's responsibility. The NZAuASB also concluded:

³ ASA 570 *Going Concern*

⁴ ED 01/19 paragraph 37 (d).

- (a) it is appropriate to include the elements required by ISA (NZ) 700 (equivalent to ASA 700), modified for a review engagement, which includes a conclusion, and the reporting implications if there is a material uncertainty related to going concern;
 - (b) whilst NZ SRE 2410 is not explicit that the auditor shall conclude on the appropriateness of going concern basis of accounting, they consider that this is implicit and is consistent with what auditors do;
 - (c) if the report does not explain why the auditor is performing these procedures or what they found it may be unlikely to satisfy investor perceptions around the auditor's responsibilities; and
 - (d) references to other review procedures may increase the risk that the report could be misinterpreted by users.
16. The NZAuASB approved the proposed description of the auditor's responsibilities in relation to going concern included in NZAuASB's ED 2019-1:
- "Based on the review procedures performed, we conclude on whether anything has come to our attention that causes us to believe that the use of the going concern basis of accounting by those charged with governance is not appropriate and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If a matter comes to our attention that causes us to believe that a material uncertainty related to going concern exists, we are required to draw attention our review report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our conclusion. However, future events or conditions may cause the entity to cease to continue as a going concern".*
17. Whilst the AUASB has not considered this specific wording previously as this was finalised after we had issued ED 01/19, the AUASB has previously discussed the principles i.e. the use of word "conclude" and that this was beyond the current requirements in ASRE 2410, as well as including the implications on the review report if a material uncertainty related to going concern is identified.
18. In re-considering the AUASB's conclusion based on the feedback from the NZAuASB's that using the wording of the procedures in ASRE 2410 was not an appropriate way to describe the auditor's responsibilities, the ATG bring to the AUASB's attention that the description of the auditor's responsibility in ASA 700. 39 (b) (iv) is a near repeat of the procedures to conclude in ASA 570.17 and 18. Even though these procedures are related to forming a conclusion, it supports that using procedures is not in appropriate, and further supports that the wording in ASA 700 is based on audit procedures under ASA 570.

Submissions received on ED 01/19

19. The AUASB received submissions from:
- (a) Deloitte
 - (b) CA ANZ
 - (c) KPMG
 - (d) Grant Thornton
 - (e) PwC
 - (f) CPA Australia

- (g) BDO
 - (h) Ernst and Young
20. Refer to the draft 5.1.1 Comments and Disposition on ASRE 2410 ED paper which includes the detailed comments received. Due to the short time frame since the comment period closed the AUASB Technical Group (ATG) have focused on the views of respondents on the description of the auditor's responsibility in relation to going concern and are still considering the other comments received.
21. Key feedback received:
- (a) All respondents indicated that were supportive of the scope of the update to ASRE 2410, including not requiring communication of key audit matters and an other information paragraph.
 - (b) Three respondents commented that the NOCLAR amendments needed to be revisited. This will be considered by the ATG;
 - (c) Mixed feedback on the inclusion of compliance frameworks in ASRE 2410 as this would be used rarely. But on balance the majority support this being included;
 - (d) All respondents agreed with how management's responsibility in relation to going concern have been described; and
 - (e) Some commented that the use of those charged with governance and management are not consistent and needs to be reconsidered. This will be reconsidered by the ATG.
22. In relation to the description of the auditor's responsibility in relation to going concern and the questions asked in the Addendum, all respondents emphasised the importance of the AUASB and the NZAuASB reaching consensus on this matter and issuing standards with the same requirements.
- We received mixed feedback on the wording included in ED 01/19 and NZAuASB's ED as follows:
- (a) Two respondents agreed that ED 01/19 reflects the existing responsibility in ASRE 2410 and did not consider that any changes were required;
 - (b) Three respondents did not agree that including the underlying procedural requirement from ASRE 2410 in the review report, as is done in ED 01/19, adequately described the responsibility. Another respondent indicated listing the procedures wasn't the most effective way of communicating the responsibilities, however was not strongly against this;
 - (c) Four respondents believe that the wording in ED 01/19 needs to be expanded to include the impact on the review report if there is a material uncertainty related to going concern or a modification, as is done in NZAuASB's ED;
 - (d) Seven respondents commented that ASRE 2410 does not require the auditor to "conclude" on the going concern basis of accounting, and they do not agree it is appropriate to include this as an explicit statement in the review report as is done in NZAuASB's ED. Respondents commented that this wording is appropriate for an audit and is not appropriate for a review engagement;
 - (e) Three respondents suggested that "However future events or conditions may cause the entity to cease to continue as a going concern" should be added to ED 01/19. Note this is consistent with ASA 700 and is also included in NZAuASB's ED. However one respondent does not agree with this being included in NZAuASB's ED;

- (f) The wording in ED 01/19 was not appropriate for an initial review engagement (one respondent); and
- (g) One respondent also suggested the AUASB should consider clarifying in the review report:
 - (i) What the auditor does not conclude on ie. Confirming the future viability of the entity;
 - (ii) That going concern remains an assumption by management about the foreseeable future and assurance cannot be placed on future events; and
 - (iii) That the going concern assumption is an area of significant judgement by both management and the auditor.

The ATG have not considered 22 (g) yet but will consider with the NZAuASB.

ATG recommendation and action for the AUASB

The feedback from respondents was mixed and on balance indicates that the description of auditor’s responsibilities in ED 01/19 needs to be revisited with the NZAuASB. Specifically the ATG’s recommendations are that the wording in ED 01/19:

- Be reconsidered including listing the procedures;
- Not include a specific statement that the auditor “concludes” on going concern;
- Be extended to include the impact on the review report if a MURGC; and
- Consider the need for guidance on initial review engagements (if the wording to “changed their assessment” is retained).

Do you agree with the AUASB’s recommendations?

- 23. Other feedback from respondents relevant to the scope of this project:
 - (a) Consider allowing auditors to refer to a description of the relevant auditor’s responsibilities on the AUASB website, consistent with the requirements of ASA 700 (one respondent).
 - (b) The auditor’s responsibilities need to include the other key responsibilities of the auditor in conducting a review engagement, not solely those related to going concern. (one respondent).

Note raised by one (different) respondent. The ATG will consider this feedback and discuss with NZAuASB.

- 24. Respondents also commented that ED 01/19 should be amended to include more requirements and guidance in relation to going concern (which is not in the original scope of this project) as follows:
 - (a) There is not sufficient clarity in ASRE 2410 as to the auditor’s responsibilities in relation to going concern. Given its importance suggest there needs to be a separate section in ASRE 2410 that explicitly addresses the auditor’s responsibility for going concern. Consider adding detail on what would be “adequate disclosure” consistent with ASA 570 paragraph 19 (one respondent)
 - (b) Add specific procedures currently in ASA 570 to be undertaken where there exists a material uncertainty in relation to going concern.

- (c) Existing paragraph 19 be amended to require the auditor to enquire about the basis for TCWG's assessment of the entity's ability to continue as a going concern.
- (d) Reference to ASA 570 as guidance when reviewing management's assessment of the entity's ability to continue as a going concern and determine the adequacy of disclosure.
- (e) Paragraph 23 of ED 01/19 should include requirements for obtaining written representations from management and, where appropriate, from TCWG, regarding their plans for future actions and the feasibility of these plans and appropriately reference to ASA 570.

ATG recommendation and action for the AUASB

Amending ASRE 2410 to provide additional requirements and guidance in relation to going concern is beyond the original scope of this project. The AUASB has previously agreed that it was not appropriate to move ahead of the IAASB on this important matter. However some of these suggestions would not involve extending the auditors responsibility.

The ATG is looking for preliminary views on updating ASRE 2410 for these comments? This will also be discussed with the NZAuASB.

- 25. The AUASB received other feedback which is yet to be considered and analysed by the ATG.

Next steps

- 26. The ATG will continue to work with the NZAuASB in the finalisation ASRE 2410. The NZAuASB comment period closes 14 October 2019 and they will consider at their meeting on 24 October 2019.
- 27. Given the range of different views the ATG recommend that the AUASB and NZAuASB Chair determine a process going forward for both boards to work together to finalise this standard. This may involve a sub-committee involving representation from both boards and staff.
- 28. The ATG are working towards providing a redrafted ASRE 2410 for consideration by the AUASB at its meeting on 3 December 2019.
- 29. The effective date will be reconsidered depending on the expected date of issue.

Question for the AUASB

Any other comments or matters that the AUASB would like to raise?

- 30. Material Presented

Agenda Item	5.1.0 AUASB Board Meeting Summary Paper
	5.1.1 Comments and Disposition on ASRE 2410 ED

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