

**CPA Australia Ltd**

Level 20, 28 Freshwater Place  
Southbank VIC 3006  
Australia

GPO Box 2820  
Melbourne VIC 3001  
Australia

**Phone** 1300 737 373

**Outside Aust** +613 9606 9677

**Website** cpaustralia.com.au

29 August 2019

Prof Roger Simnett AO  
The Chair  
Auditing and Assurance Standards Board  
PO Box 204, Collins St West  
Melbourne, VIC 8007  
Australia

On-line submission: [www.auasb.gov.au/Work-In-Progress/Open-for-comment.aspx](http://www.auasb.gov.au/Work-In-Progress/Open-for-comment.aspx)

Dear Roger

**Submission on ED 01/19 Proposed Auditing Standard on Review Engagements ASRE 2410  
*Review of a Financial Report Performed by the Auditor of the Entity***

CPA Australia represents the diverse interests of more than 164,000 members working in 150 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

CPA Australia supports the revision of ASRE 2410 in the absence of any project at the International Auditing and Assurance Standards Board to revise ISRS 2410. In particular, we support the scope of the revisions to reflect the current auditor's report format and content, and the outcomes of the IAASB's project regarding non-compliance with laws and regulation (NOCLAR). We consider that it will be helpful to both auditors and users of financial reports for the language, scope and format of the interim review report prepared by the auditor of the entity to be consistent with the auditor's report issued at year end.

However, to this end, we suggest that the alignment of the review report wording in revised ASRE 2410 could be much closer to the audit report wording in ASA 700, particularly with respect to the nature and breadth of the procedures covered in the auditor's responsibilities. The responsibilities, included in the auditor's report in revised ASRE 2410, focus on procedures related to going concern but omit references to other core procedures. Consequently, the report is arguably unbalanced in reflecting the key responsibilities of the auditor when conducting a review engagement. In addition, we consider that the applicable requirements in APES 110 *Code of Ethics for Professional Accountants* with respect to NOCLAR, for reviews conducted by the auditor, need to be identified and better reflected in ASRE 2410.

Our responses to the specific questions included in ED 01/19 and the Addendum to Explanatory Memorandum are provided in the attachment.

If you require further information on the views expressed in this submission, please contact Claire Grayston, Policy Adviser – Audit and Assurance, on +61 3 9606 5183 or at [claire.grayston@cpaustralia.com.au](mailto:claire.grayston@cpaustralia.com.au).

Yours sincerely



Dr Gary Pflugrath  
Head of Policy and Advocacy

## ATTACHMENT

**1. Do you agree with the scope and key proposals to incorporate the auditor’s reporting requirements made to the auditor’s report consistently into the auditor’s review report?**

Yes, we are supportive of the scope and key proposals which provide consistency between the interim review report and the annual auditor’s report.

**2. Do you agree with the proposed amendments to incorporate conforming amendments as a result of the IAASB’s project regarding non-compliance with laws and regulation (NOCLAR)?**

Yes, we support amendments to reflect NOCLAR so that practitioners are clear on their responsibilities with respect to following up on instances of or suspected NOCLAR when conducting reviews. However, we consider that the applicable requirements of the APES 110 with respect to NOCLAR need to be more fully addressed in the revised standard. Whilst APES 110 provides two sets of NOCLAR requirements, one for “audits of financial statements” (APES 110 paragraphs 225.12-.38 which are reflected in ASA 250) and another for “professional services other than audits of financial statements” (APES 110 paragraphs 225.39-.56), we consider that the NOCLAR requirements for “audits of financial statements” are appropriate for review engagements conducted by the auditor of the entity. The NOCLAR requirements for “professional services other than audits of financial statements” address communication with the external auditor, which is not applicable to engagements under ASRE 2410. The AUASB seems to have also reached that view as ED 01/19 directs auditors to ASA 220 for guidance. The revised ASRE 2410 should clearly link to these requirements in APES 110 by way of footnote. ASA 220 is also useful in drafting additional requirements.

Whilst additional requirements for NOCLAR are included in paragraph 30 of the ED, we consider that the following amendments are also needed:

- a) Inclusion of requirements under the heading “Enquiries, Analytical and Other Review Procedures” for:
  - (i.) the auditor to enquire about whether the entity is aware of any NOCLAR (See ASA 250 paragraph 15), and
  - (ii.) if the auditor becomes aware of an instance or suspects NOCLAR, to obtain an understanding of the nature of the act and the circumstances in which it has occurred, as well as further information to evaluate the possible effect on the financial report (See ASA 250 paragraph 19).
- b) Amendment of paragraph 30 to better reflect the communications the auditor would need to undertake under APES 110. In particular, rather than requesting “management’s assessment of the effect on the financial report” (subparagraph 30(b)), we consider there should be a requirement to address the circumstance where management or those charged with governance (TCWG) may be involved in the NOCLAR and consider the need to obtain legal advice. (See ASA 250, paragraphs 25).

We support reference to ASA 250 as a source of guidance. However, we consider that this reference would be better placed in paragraph A39, which is directly referenced in paragraph 30 with respect to the NOCLAR requirement. The reference in subparagraph A20(d)(xv) to ASA 250 could also be retained if it was linked to a requirement for enquires regarding NOCLAR as suggested in (a) above.

**3. Do you agree with including reviews of financial reports prepared in accordance with a compliance framework explicitly in ASRE 2410?**

Whilst we agree that theoretically reviews by the auditor of the entity under a compliance framework may occur, in addition to reviews under a fair presentation framework, we believe in practice this scenario would very rarely arise as the standard is applicable primarily to interim reviews required under the Corporations Act. Therefore, we suggest that minimum attention be given to compliance frameworks.

We recommend that the definition in paragraph 5 of financial reporting framework could be revised to reference compliance frameworks, but then include the statement along the lines that “this standard does not address the circumstance where a review is conducted by the auditor of the entity on a financial report prepared under a compliance framework as it is expected to rarely occur. However, the requirements can be adapted for that purpose.”

Furthermore, we suggest deletion of the example report: Example F - *Unmodified Auditor’s Review Report on a Financial Report Financial Report Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Compliance* as we believe it will only serve to cause confusion regarding the appropriate auditor’s review report to use. Likewise, the following paragraphs and footnote could be deleted or amended: 33(e)(iii), A41 and footnote 20 on page 38.

We also recommend reinstating the references to fair presentation frameworks in paragraphs 11(a) and 35(a), and the retention of a reference to fair presentation framework in paragraph A2, the conformity statement, and Appendix 2 illustrative procedures.

**4. Do you agree with how the responsibilities of management for the financial report, and the auditor’s responsibilities for the review of the financial report, are described in the auditor’s review report? Refer to paragraph 18 and 19 in the Explanatory Memorandum for detail on the AUASB’s deliberations.**

Whilst the responsibilities of the auditor and management required to be included in the review report have been expanded relative to the extant standard in paragraph 37(d) and in the illustrative reports, we note that those responsibilities do not encompass all of the key matters for which the auditor is responsible. The additional responsibilities included in the proposed review report only incorporate the procedures the auditor is required to conduct in relation to going concern, as detailed in paragraph 19. By ignoring other key procedures, this creates an imbalance in the matters reported, potentially over-emphasising the procedures conducted in relation to going concern.

We consider that the auditor’s responsibilities described in the review report could be more closely aligned with those detailed in the auditor’s report under ASA 700. For example, in addition to “making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures” (which addresses the procedures in para. 16), other key procedures in ASRE 2410 that should be described in the review report include:

- Understanding of the entity and its environment, including its internal control, sufficient to plan and conduct the engagement so as to be able to identify the types of potential material misstatements and consider the likelihood of their occurrence, and select the enquiries, analytical and other review procedures that will provide the auditor with a basis for their review conclusion (para. 13)

- Consideration of materiality, using professional judgement, when determining the nature, timing and extent of review procedures, and evaluating the effect of misstatements (para. 15)
- Obtaining evidence that the financial report agrees or reconciles with the underlying accounting records. (para. 17)
- When a matter comes to the auditor's attention that leads the auditor to question whether a material adjustment should be made for the financial report to be prepared, in all material respects, in accordance with the applicable financial reporting framework, making additional enquiries or perform other procedures to enable the auditor to express a conclusion in the auditor's review report. (para. 20)

This list may not be complete and would need further consideration in order to appropriately summarise the responsibilities reflected in ASRE 2410. By including all of the auditor's key responsibilities in conducting a review in the review report, it puts the going concern procedures into context.

In addition, we do not consider that procedures required on going concern are adequately reflected in the review report wording, as the report only reflects the procedures in paragraph 19, but fails to encapsulate the response to the outcome of those procedures in paragraphs 50-52. We consider that the wording used by the NZAuASB in its ED on NZ SRE 2410 explains what is done more clearly and clarifies the period considered and the risk that conditions may change, as well as aligning closely to ASA/NZ ISA 700 report wording. The words in ED NZ SRE 2410 are:

*"Based on the review procedures performed, we conclude 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 in our review report to the related disclosures in the [period] financial statements or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the procedures performed up to the date of the review report. However, future events or conditions may cause the entity to cease to continue as a going concern."*

In addition, we consider that paragraph 19, which requires the auditor to "enquire whether those charged with governance have changed their assessment of the entity's ability to continue as a going concern", could be more clearly expressed. Even though it remains unchanged from the extant standard, we suggest the procedures could instead require the auditor to enquire about the basis for TCWG's assessment of the entity's ability to continue as a going concern.

Finally, we question why "Those Charged with Governance" are not referred to in the review report examples. We suggest that Those Charged with Governance are added to title "the responsibilities of Management for the Financial Report" and the wording from example reports in ASA 700 be included: *"Those charged with governance are responsible for overseeing the Entity's financial reporting process."* Overall, we recommend consideration of whether the terms "those charged with governance" and "management" have been consistently applied throughout the standard.

**5. Do you consider that there are any further amendments required to be made to ASRE 2410?**

We recommend that:

- “auditor of the entity” is defined to clarify that it means the auditor of the entity’s annual financial report,
- the titles of the illustrative review reports in Appendix 4 are simplified to be consistent with ASA 700. For example: “*Unmodified Auditor’s Review Report on a Financial Report, Financial Report Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation*” could be simplified to “*Example Review Report, Unmodified, Single Entity, (Fair Presentation Framework)*”. Consideration could also be given to mirroring the examples provided in ASA 700 and ASA 705, so it is clear which is the equivalent review report, and
- reference is made to ASA 570 as guidance when reviewing management’s assessment of the entity’s ability to continue as a going concern and determining the adequacy of disclosure of a material uncertainty in relation to going concern.

**6. Do you agree with the proposed effective date? If not, please explain why not.**

Whilst an effective date of periods commencing on or after 1 January 2020 provides a very short implementation period, we consider that the amendments do not change the fundamental work effort which currently should be undertaken. It largely impacts the report format and content which should not present much difficulty to implement. The revisions also reflect other existing requirements such as those in relation to NOCLAR, which need to be brought to the reviewer’s attention. Consequently, unless there is a significant delay in publishing the final standard, we agree with the effective date as drafted.

**7. Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?**

Yes, we consider that laws and regulations been appropriately addressed. We have not identified any omissions.

**8. 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?**

We have not identified any such laws or regulations.

**9. Are there any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?**

We have not identified any such principles and practices.

10. **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 significant costs are expected, the AUASB would like to understand:**
- a) **Where these costs are likely to occur;**
  - b) **The estimated extent of costs, in percentage terms (relative to audit fees); and**
  - c) **Whether expected costs outweigh the benefits to the users of audit services?**

We do not consider that the revised standard will have any significant cost implications.

11. **Are there any other significant public interest matters that constituents wish to raise?**

We suggest that it is in the public interest for the AUASB and NZAuASB to issue ASRE 2410 and NZ SRE 2410, respectively, with consistent wording, including that of the review report, except where legislation specific to the jurisdiction is referenced.

Editorial comment: The contents page(s) should include the titles of the appendices.

#### **Addendum questions**

1. **Do you agree that the review report should include a description of the responsibility for the auditor in respect of going concern?**

Yes, a description of that responsibility is appropriate if the other key responsibilities of the auditor in conducting a review of an interim financial report are also reflected. The statement describing the auditor's responsibilities needs to be appropriately balanced so that no single responsibility is overemphasised.

2. **Do you agree with how the auditor's responsibility has been described in ED 01/19? If so, why. If not, why not, with, if appropriate, specific reference to the NZAuASB suggested wording.**

We consider that the auditor's responsibilities need to include the other key responsibilities of the auditor in conducting a review engagement, not solely those relating to going concern, as explained in answer to question 4 above. In addition, we consider that the NZAuAB's suggested wording in ED NZ SRE 2410 on the responsibilities in relation to the going concern stands alone better than that in ED 01/19, as it does not include the detailed procedures conducted but is more complete in explaining the outcome of the procedures and relevant limitations.