A GUIDE TO UNDERSTANDING AUDITING AND ASSURANCE:

LISTED COMPANIES

OCTOBER 2014

BE HEARD.
BE RECOGNISED.

CPA AUSTRALIA

CPA Australia Ltd ('CPA Australia') is one of the world's largest accounting bodies representing more than 150,000 members of the financial, accounting and business profession in 121 countries.

ISBN: 978-1-921742-40-8

For information about CPA Australia, visit our website **cpaaustralia.com.au**

First published 2013

CPA Australia Ltd
ACN 008 392 452
Level 20, 28 Freshwater Place
Southbank Vic 3006
Australia

CONTENTS

Contributors	**4**
Foreword	**5**
A guide to understanding auditing and assurance: Listed companies	**6**
Why are audits and reviews required?	6
What does assurance mean?	6
What is an audit of financial statements?	7
What is a review of financial statements?	7
Relationships in financial reporting	7
The auditor's report	8
Modified auditor's reports	9
How can you tell if the auditor's report is clean or not?	9
What is auditor independence?	10
What do auditors and reviewers do?	11
What does materiality mean?	12
What do auditors do in regard to fraud?	12
What do auditors do in regard to going concern?	12
Does a clean auditor's report mean a clean bill of health for the company?	13
Does the auditor sign off on the whole annual report?	13
What is audit quality?	13
Difference between internal and external audit	13
Other assurance	13
Appendix 1 – Glossary	**14**
Appendix 2 – Example auditor's report	**15**

CONTRIBUTORS

CPA Australia acknowledges the work of the External Reporting Centre of Excellence.

EXTERNAL REPORTING CENTRE OF EXCELLENCE

David Hardidge FCPA	Chairman
Indra Abeysekara CPA	
Tong-Gunn Chew FCPA	
Ric De Santi FCPA	
Thomas Egan FCPA	
Amir Ghandar FCPA	Technical Support and Lead Author
Piotr Jakubicki CPA	
Alan Lee CPA	
Jeffrey Luckins FCPA	
Carmen Ridley	
Mark Shying CPA	Technical Support
Julie Sinclair FCPA	
Ram Subramanian	Technical Support
Eva Tsahuridu	Technical Support

FOREWORD

Auditing and assurance play an essential role in the effective operation of our capital markets and the economy at large, providing confidence to current and prospective shareholders about the information disclosed by companies.

A guide to understanding auditing and assurance: listed companies explains the value and purpose of auditing and assurance in plain language. This should assist shareholders who are not experts in auditing and assurance to better understand the messages from their company's auditor, and make use of this information in their decision making.

Since first publication, the Guide has been recognised for its contribution to this essential aspect of financial literacy, both widely amongst Australian stakeholders and internationally. Importantly, the Australian Parliamentary Joint Committee on Corporations and Financial Services reported that the guide addresses expectations gaps highlighted in the wake of recent corporate collapses into which it has inquired.

This Guide has been produced in the public interest and is an initiative of the External Reporting Centre of Excellence of CPA Australia. I congratulate them on their continued contribution to a CPA Australia publication that has an important role to play in the promotion of improved financial literacy.

Alex Malley FCPA
Chief Executive Officer
CPA Australia Ltd

A GUIDE TO UNDERSTANDING AUDITING AND ASSURANCE: LISTED COMPANIES

WHY ARE AUDITS AND REVIEWS REQUIRED?

Shareholders are often quite separate from those managing and governing the companies they own.[1] They need a reliable and independent source of financial information on which to assess the company, and the performance of management. The same can be said for other stakeholders of companies, such as creditors, lenders, employees, analysts, prospective shareholders, governments and communities. Audits and reviews enhance the credibility of the information contained within the **financial statements**, so that shareholders and other stakeholders can make assessments and decisions with confidence and on a consistent basis.

WHAT DOES ASSURANCE MEAN?

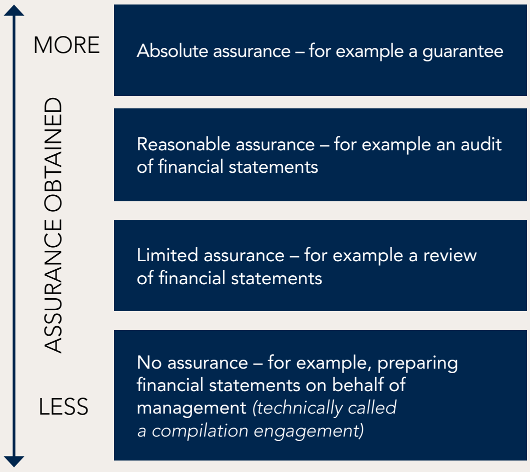
The term **assurance** refers to the expression of a conclusion that is intended to increase the confidence that users can place in a given subject matter or information. For example, an **auditor's report** is a conclusion that increases the confidence that users can place in a company's financial statements.

There are different levels of assurance, which depend on the type of work that the **assurance practitioner** performs, and these different levels also lead to different types of conclusions.

Type of assurance	For example	Nature of key work performed	Example form of conclusion
Reasonable assurance	An audit of financial statements	Detailed testing, evidence gathering and substantiation to support the conclusion.	"We believe the financial statements *present* a true and fair view".
Limited assurance	A review of financial statements	Primarily enquiries and analysis, less detailed procedures.	"We have *not* become aware of any matter to cause us to believe the financial statements *do not* present a true and fair view".
No assurance	Preparing financial statements (compilation)	Preparation of the financial statements	No conclusion provided

1 This guide refers to audits and reviews of listed company financial statements. The concepts of audit and review are also applicable to other types of entities such as listed trusts and partnerships and privately held entities.

The following diagram illustrates different levels of assurance, in some of the different activities performed by accountants:



WHAT IS AN AUDIT OF FINANCIAL STATEMENTS?

An audit of financial statements is a **reasonable assurance** engagement where the auditor provides an opinion about whether the financial statements present a **true and fair** view, and are in accordance with **accounting standards** *(and legislation where appropriate).*

Australian listed company full-year financial statements are required by law to be audited. Many other types of entities are also required to have their financial statements audited, for example non-listed companies over a certain size threshold, some charities and not-for-profit entities.

While the reasonable assurance obtained in an audit is a high level of assurance, it is not absolute assurance (a certification that the financial statements are completely correct). Obtaining absolute assurance is not possible in financial statement audits for a number of reasons, including:

- It would be impractical for the auditor to test and audit every transaction
- Financial statements involve judgements and estimates which often cannot be determined exactly, and may be contingent on future events

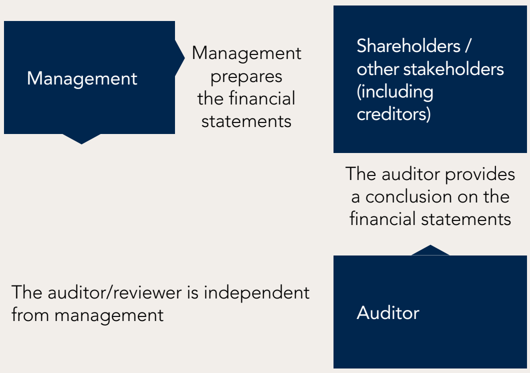
WHAT IS A REVIEW OF FINANCIAL STATEMENTS?

A review of financial statements is a **limited assurance** engagement where the reviewer provides a conclusion to the users of the financial statements as to whether they do not present a true and fair view, and are in accordance with accounting standards.

Australian listed company half-year reports are reviewed by the same auditor that will audit the financial statements at the end of the year.

RELATIONSHIPS IN FINANCIAL REPORTING

The following diagram illustrates the relationship between shareholders and other stakeholders, management[2] and the auditor or reviewer.



In listed companies a sub-committee of the board of directors called the audit committee usually arranges the appointment of the auditor. The audit committee typically meets with the auditor throughout the year to discuss details such as scheduling, risks, financial reporting issues, the auditors findings and other matters relevant to the audit and financial statements. At the conclusion of the audit, the auditor often provides a more detailed, in-depth confidential report to the audit committee.

In Australia, auditors attend a listed company's Annual General Meeting and are available to answer questions from interested parties that are entitled to participate in the meeting, such as shareholders. This is a useful opportunity to clarify specific aspects of the audit.

2 Unless otherwise specified, the term "management" throughout this guide refers to those charged with the governance of companies including directors and top level executives.

THE AUDITOR'S REPORT

The auditor's report contains the auditor's opinion on the financial statements, in addition to a range of other information. Appendix 2 contains an illustrative example of an unmodified auditor's report with explanation, and Appendix 3 contains an example of an unmodified **review report** with explanation. An unmodified auditor's report effectively states the auditor believes the financial statements present a true and fair view, and are in accordance with accounting standards and relevant legislation. This is sometimes also called an "unqualified" or a "clean" audit opinion. Unmodified auditor's reports are the most common type you are likely to come across. This is in part because management usually addresses most of the problems or adjustments that auditors discover before the financial statements are issued.

An unmodified review report effectively states the reviewer did not become aware of anything that suggested the financial statements do not present a true and fair view in accordance with accounting standards.

Emphasis of matter and other matter paragraphs

In some circumstances, the auditor will include additional wording in the auditor's report directing users to information that in their view is fundamental to understanding the financial statements. This may be information included in the financial statements, such as a note (called an "emphasis of matter" paragraph), or information that is included elsewhere (called an "other matter paragraph").

It is important to note that an emphasis of matter or other matter paragraph is not a qualification, limitation or adverse conclusion (for these types of auditor's reports, see *Modified auditor's reports* below).

Type of paragraph	Examples
Emphasis of matter	There is a significant uncertainty as to the company's ability to continue as a going concern, which has been appropriately disclosed in the financial statements.
Other matter	There is information included in an annual report that is inconsistent with the audited financial statements (for example, the figures in the operating review are inconsistent with those disclosed in the financial statements).

MODIFIED AUDITOR'S REPORTS

Modified auditor's reports are issued when the auditor believes the financial statements contain a **material misstatement**, or when the auditor is unable to obtain enough evidence to form an opinion. The following table sets out the different types of modified auditor's reports that may be issued in these situations.

Type of modified audit opinion	Description	Situations where this type of report may be issued	Examples
Qualified or "except for" opinion	The opinion states the financial statements present a true and fair view, and are in accordance with accounting standards *except* for the effect of a specific matter or matters. The issues are described in a separate paragraph within the report.	A qualified opinion is issued when a specific part of the financial statements contains a material misstatement or adequate evidence cannot be obtained in a specific, material area, and the rest of the financial statements are found to present a true and fair view, in accordance with accounting standards.	The auditor has a different view on the valuation of an asset than that applied by management in the financial statements, but the rest of the financial statements were found to be free of material misstatements.
Disclaimer of opinion	The auditor cannot reach an opinion overall on the financial statements and therefore disclaims any opinion on it.	A disclaimer of opinion is issued when the auditor cannot obtain adequate evidence to form an opinion on the financial statements overall.	The company's financial reporting information system is damaged and key data is lost, meaning adequate evidence is not available to support the disclosures in the financial statements.
Adverse opinion	The opinion states that the auditor believes the financial statements *do not* present a true and fair view, and *are not* in accordance with accounting standards.	An adverse opinion is issued when the auditor believes misstatements are so pervasive that the financial statements do not present a true and fair view, or are not in accordance with accounting standards.	The auditor believes that management has applied an inappropriate financial reporting framework in preparing the financial statements.

HOW CAN YOU TELL IF THE AUDITOR'S REPORT IS CLEAN OR NOT?

To determine if an auditor's report is clean or modified, you need to look at the "opinion" section. This is usually found towards the end of the auditor's report, before the auditor's name and signature. An unqualified or clean audit opinion will state that the auditor believes the financial statements present a true and fair view, and are in accordance with accounting standards and relevant legislation. A modified auditor's report will contain a qualification to that statement, a disclaimer or an adverse statement (see also "Modified auditor's reports").

It is also useful to look at the heading of the audit opinion which will state "Qualified opinion" if the opinion is qualified.

Even where there is a clean opinion, it is important to look for and pay attention to emphasis of matter or other matter paragraphs (see also page 8).

DOES A CLEAN AUDITOR'S REPORT MEAN A CLEAN BILL OF HEALTH FOR THE COMPANY?

Auditor's reports are intended to increase the degree of confidence users have in the information in financial statements – not about the state of the company itself or whether it is a safe investment. An unmodified auditor's report means investors or other stakeholders can make an assessment of the company based on its financial statements, with a higher degree of confidence that the information is materially correct and unbiased.

Auditor's do perform a role in assessing the appropriateness of the going concern assumptions used by management in preparing the financial statements, but this cannot be taken as a conclusion on the solvency or financial health of the company (see "What do auditors do in regard to going concern?").

WHAT IS AUDITOR INDEPENDENCE?

An independent auditor is free from external influence or bias and is therefore able to independently form judgements and conclusions during the audit. Auditors are subject to **professional ethical standards**, including extensive requirements for auditor independence both in mind and in appearance. It is critical that auditors are not only actually independent, but also seen as independent.

Many of the laws and regulations applicable to audits, such as those in the *Corporations Act 2001*, set out additional independence requirements that auditors of relevant companies need to meet. For listed companies in Australia, some of these additional requirements include:

- Rotation of lead auditors every five years
- Restrictions on auditors holding board positions at companies they have audited

The *Corporations Act 2001* requires a declaration of independence to be provided by the auditor to the board of directors, which is published in the annual report.

WHAT DO AUDITORS AND REVIEWERS DO?

The audit or review of financial statements is a systematic process designed to identify instances of material misstatement in the financial statements. Extensive **auditing and assurance standards** and legislative requirements set the framework and minimum requirements for financial statement audits and reviews.

The following diagram illustrates at a very high level what is involved in financial statement audits and reviews, and the order in which activities usually take place during the year:

Primarily performed prior to period end	Initial assessment and agreement on terms of the engagement	A key part of the initial assessment is whether the auditor/reviewer will be able to meet independence and other ethical requirements.
	Understanding the company and assessing risks of material misstatement in the financial statements	Understanding the company involves an analysis of internal and external factors – in greater depth for an audit than a review. The assessed risks of material misstatement form a basis for the audit/review procedures to be performed.
Period end, e.g. 30 June		
Primarily performed after period end	Performing procedures to address the risk of material misstatement in the financial statements	The types of procedures applied involve judgement and will vary significantly depending on the risks of material misstatement, nature of the entity and whether the engagement is an audit or review.
	Finalisation and auditor's report signed (Australian listed companies: within 3 months of period end date)	For more on auditor/reviewer's reporting, see "The auditor's report", and illustrative examples in appendices 2 and 3.

WHAT IS A MATERIAL MISSTATEMENT?

As mentioned above, auditors and reviewers are concerned with material misstatements, rather than *any* misstatement in the financial statements. Material misstatements are those that are significant enough to affect the decisions made by the users of the financial statements. This can be in terms of the quantitative or qualitative significance of misstatements.

Quantitative	The quantities or dollar amounts in the financial statements. For example, quantitatively material misstatements could include: • Overstating revenue • Missing/not recorded liabilities • Understating expenses
Qualitative	The nature of items in the financial statements. For example, qualitatively material misstatements could include: • Not disclosing certain related party transactions • Not disclosing management's remuneration These disclosures are important in evaluating how the company has been managed, although they may be small quantitatively in comparison to the scale of the company's overall operations.

WHAT DO AUDITORS DO IN REGARD TO FRAUD?

Auditors consider the possibility that fraudulent activities can result in material misstatement in the financial statements, and take this into account in planning and performing their work. Fraud is defined in auditing and assurance standards as an:

"intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage".

An audit is not an investigation intended to uncover all instances of fraud. However it is reasonable to expect that an audit would detect instances of fraud that result in material misstatement.

WHAT DO AUDITORS DO IN REGARD TO GOING CONCERN?

The **going concern** assumption is that a company will continue in business for the foreseeable future. This assumption is adopted unless evidence indicates otherwise.

The going concern assumption has a significant impact on how a company's financial statements are presented (see "If going concern doesn't apply").

In preparing the financial statements, management makes an assumption as to whether it believes the company will be able to continue as a going concern. The auditor performs work to assess this assumption as part of the audit.

If going concern doesn't apply

Companies that are not a **going concern** report on a different basis from those that are – for example, assets and liabilities would be recognised at their immediate sale value/ liquidation value, rather than their value in future use.

The work of the auditor includes:

- Obtaining evidence that can be used to assess the appropriateness of management's assumptions in regard to going concern.
- Forming a conclusion on whether that evidence indicates any material uncertainties in the ability of the company to continue as a going concern.

The auditor's focus in this assessment is whether the company can continue as a going concern for a 12-month period from the date of signing the auditor's report.

The going concern assumption involves judgements about events taking place in the future, which are inherently uncertain. Where there is significant uncertainty in the company's ability to continue as a going concern and this has been disclosed by management in the financial statements, the auditor includes wording in the auditor's report to direct users to the applicable note in the financial statements.

This is called an emphasis of matter paragraph (explained further on page 7). If the auditor ultimately does not agree with management's assumptions in regard to going concern, the result would be a modified opinion (see "The auditor's report").

DOES THE AUDITOR SIGN OFF ON THE WHOLE ANNUAL REPORT?

The auditor's report is about the financial statements, which are usually included in the annual report. In the case of listed companies in Australia, the auditor also provides an opinion on the remuneration report, which discloses the remuneration of key management personnel. Other information within the annual report may not have been subjected to assurance (for example management discussion and analysis, or an operating review). However, the auditor does consider whether this accompanying information is consistent with the audited financial statements. So for example, the auditor would report if the profit results included in the operating review were inconsistent with those in the financial statements.

WHAT IS AUDIT QUALITY?

Audit quality is challenging to define, measure and observe as most of the valuable work auditors do happens before company financial statements are released to the public (see also "What do auditors and reviewers do?"). The International Auditing and Assurance Standards Board (IAASB) has issued a *Framework for Audit Quality* which says:

> "Audit quality encompasses the key elements that create an environment which maximises the likelihood that quality audits are performed on a consistent basis."

Audit firms are ultimately responsible for performing quality audits. The IAASB's *Framework for Audit Quality* also recognises the importance of the contribution and support of regulators, audited companies and other stakeholders in achieving quality audits and reliable financial statements in the capital markets.

DIFFERENCE BETWEEN INTERNAL AND EXTERNAL AUDIT

Internal audit is an appraisal activity established within an entity and functions under the direction of the company's management and board. It is a management tool and forms part of the company's internal control structure. In general, the main focus of an internal audit is to evaluate the adequacy and effectiveness of the company's internal control.

Conversely, an external audit is undertaken by an auditor who is independent from the entity and has been appointed to express an opinion on the financial statements or other specified accountability matter. External auditors act and report in accordance with their mandates, which may be dictated by legislation, regulation or established in a contract.

OTHER ASSURANCE

Assurance is also applicable in a wide and expanding range of other areas aside from financial statements. Some examples include:

- Compliance with regulations
- Sustainability reports
- Greenhouse gas emission statements
- Prospectuses
- Performance audits

A wide group of stakeholders increasingly need credible information in regard to the performance and impact of companies in these areas.

APPENDIX 1 – GLOSSARY

Accounting standards: Mandatory standards applied in preparing financial statements. In Australia, these standards are issued by the Australian Accounting Standards Board, and internationally by the International Accounting Standards Board.

Assurance: The expression of a conclusion that is intended to increase the confidence of users in subject matter or information (see also "What does assurance mean?").

Assurance practitioner: A professional assurance services provider.

Auditor's report: The final report that sets out the auditor's opinion (see also "The auditor's report", and an example of an auditor's report in Appendix 2).

Auditing and assurance standards: Mandatory standards applied by assurance practitioners in audits, reviews and other assurance engagements. In Australia these standards are issued by the Australian Auditing and Assurance Standards Board, and internationally by the International Auditing and Assurance Standards Board.

Financial statements: Four primary financial statements for the current and comparative financial period (statement of comprehensive income, statement of financial position, statement of changes in equity, and cash flow statement), plus the notes to the financial statements. See also,"A guide to understanding annual reports: Listed companies" available on CPA Australia's website.

Going concern: An enterprise that is expected to continue in business for the foreseeable future, taken to be a 12 month period for the purpose of auditor going concern assessments. (see also "What do auditors do in regard to going concern?").

Limited assurance: A level of assurance that is meaningful, but lower than reasonable assurance (see also "What does assurance mean?").

Material misstatement: An inaccuracy or omission from the financial statements that is significant enough to affect the decisions made by users of the financial statements.

Professional ethical standards: The ethical standards applicable to the accounting profession, including those applicable to assurance practitioners. In Australia, these standards are issued by the Accounting Professional and Ethical Standards Board, and internationally by the International Ethics Standards Board for Accountants.

Reasonable assurance: A high but not absolute level of assurance (see also "What does assurance mean?").

Review report: The final report that sets out the review conclusion (see also "The auditor's report", and an example of a review report in Appendix 3).

True and fair: Presenting an accurate and unbiased picture of a company's financial performance and position in the financial statements.

APPENDIX 2 – EXAMPLE AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

The report is addressed to the members or shareholders of the company

To the Members of ABC Company Ltd.

This section sets out the basic details of the engagement – the applicable reporting period, name of the company, and what was audited

Report on the Financial Report

We have audited the accompanying financial report of ABC Company Ltd., which comprises the statements of financial position as at 30 June 2014, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

The directors are responsible for preparing the financial statements, and for the internal controls in the company

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note X, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

APPENDIX 2 – EXAMPLE AUDITOR'S REPORT

The auditors are responsible for auditing the financial statements – this section also provides a brief description of what auditors do (see also "What do auditors and reviews do?")

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The auditor confirms they have met the required independence standards

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ABC Company Ltd., would be in the same terms if given to the directors as at the time of this auditor's report.

The auditor sets out their overall finding in the opinion. This is an example of an unmodified or "clean" audit opinion. See also "The auditor's report" for information on modified opinions.

Opinion

In our opinion:

(a) the financial report of ABC Company Ltd. is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view in all material respects of the company's and consolidated entity's financial positions as at 30 June 2014 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note X.

Audit firm

AUDIT FIRM

Audit Partner

AUDIT PARTNER

Sydney, 30 September 2014

APPENDIX 3 – EXAMPLE REVIEW REPORT

INDEPENDENT AUDITOR'S REVIEW REPORT

THIS IS A REVIEW – WHY DOES IT SAY "AUDITOR"?

The auditor that will audit the financial statements at the end of the year usually conducts the half-year review – so the report refers to the review performed by the independent auditor.

The report is addressed to the members or shareholders of the company

To the members of ABC Company Ltd.

This section sets out the basic details of the engagement – the reporting period, name of the company, what was reviewed

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of ABC Company Ltd., which comprises the condensed statement of financial position as at 31 December 2013, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

The directors are responsible for preparing the financial statements and for the internal controls in the company

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

The auditor is responsible for reviewing the financial statements – this section also provides a brief description of what auditors do (see also "What do auditors and reviews do?")

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a *Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the company's financial position as at 31 December 2014 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001. As the auditor of ABC Company Ltd., ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has substantially less scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

APPENDIX 3 – EXAMPLE REVIEW REPORT

INDEPENDENT AUDITOR'S REVIEW REPORT

The auditor confirms they have met the required independence standards

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of ABC Company Ltd., would be in the same terms if given to the directors as at the time of this auditor's report.

The auditor sets out their overall finding in the conclusion. This is an unmodified or "clean" conclusion. See also "The auditor's report".

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of ABC Company Ltd. is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the company's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001.

Audit firm

AUDIT FIRM

Audit Partner

AUDIT PARTNER

Sydney, 28 February 2014

CPAH1003_06.14