

26 August 2019

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Chair  
Auditing and Assurance Standards Board  
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Submission via [auasb.gov.au](http://auasb.gov.au)

Dear Roger

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

We welcome the opportunity to provide feedback on Exposure Draft 01/19 *Proposed Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Auditor of the Entity* ("the ED"). Appendix A provides our responses to the specific questions raised in the ED. Appendix B provides information about Chartered Accountants Australia and New Zealand (CA ANZ).

We support aligning the format and content of the auditor's interim review report with the enhanced annual auditor's report to promote consistency. We commend the AUASB and the NZAuASB for working collaboratively on this project. Against this backdrop of support, we strongly encourage the two boards to reach agreement on how to describe the auditor's responsibility in relation to going concern. In our view, the compelling reason test in the [AUASB's principles of harmonisation with the NZAuASB](#) for differences to exist is not met. It is important that the description is aligned, especially for our members who are auditors of listed entities in both Australia and New Zealand. We believe having two differing descriptions is not in the public interest.

The fact that the two boards have proposed different wording on how to describe the auditor's responsibility in relation to going concern in the review report, when the two standards are the same, may be indicative that the standard is deficient in this area and could benefit from additional clarity. However, we appreciate this is outside the intended scope of this project, and it would mean making such amendments ahead of the IAASB. But we note that ISRE 2410 is not currently on the IAASB's workplan, so this issue is unlikely to be directly addressed in the short term. Although it may be peripheral to the IAASB's auditor reporting post-implementation review and/or its ongoing considerations of going concern issues.

We would be pleased to provide further information or assist in any way that may be helpful as you continue work on this important project. If you have any questions about our submission, please contact Gerrie Burger, Senior Policy Advocate, at [Gerrie.Burger@charteredaccountantsanz.com](mailto:Gerrie.Burger@charteredaccountantsanz.com).

Yours sincerely



**Simon Grant FCA**

Group Executive, Advocacy and Professional Standing



**Amir Ghandar CA**

Leader, Reporting and Assurance

# Appendix A

## Responses to specific questions

### 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?

We agree with the scope and key proposals. Since the auditor's report was enhanced, there has been divergence in practice in relation to the format and content of interim review reports. While the AUASB's Bulletin, [Auditor review reports – the impact of the new auditor reporting requirements](#) was a good initiative and well received, it does not completely alleviate this divergence. Therefore, we would prefer it to be mandated within a standard as opposed to just optional guidance.

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

While we acknowledge reviews of interim financial reports prepared in accordance with compliance frameworks are not inconceivable, we expect them to be rare. If ASRE 2410 is to also include reference to compliance frameworks, we have the following observations:

- Appendix 2, detailed procedure 9 (page 45 of the ED) uses the term "fairly presented."
- Paragraph A2 appears to only address fair presentation frameworks.
- The fifth bullet on page 32 of the ED appears to be inconsistent with the amendments to paragraph 11(a).
- Paragraph 35(a) appears to be inconsistent with the amendments to paragraph 11(a).

### 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?

#### Responsibilities of management for the financial report

The terms "management" and "those charged with governance" appear to be used interchangeably and inconsistently at times throughout the ED. While it reflects that the roles are not always distinct, it may be confusing, so we recommend the board analyses the usage of these terms. In addition, other terms may be used, therefore the statement in paragraph 35, "The report shall use the term that is appropriate ... and need not refer specifically to "management";" is key and may be highlighted in all relevant places (especially in the illustrative reports, by way of a footnote or otherwise) to the effect of "or other term that is appropriate."

#### Auditor's responsibility for the review of the financial report

See our responses below to the Addendum questions for our views on how the auditor's responsibilities in relation to going concern are described.

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

It is not clear what "adequate disclosure" would be in an interim financial report when there is a material uncertainty relating to an event or condition that casts significant doubt on the entity's ability to continue as a going concern. In contrast, paragraph 19 of [ASA 570](#) prescribes four specific disclosure

requirements for annual financial statements that are subject to audit:

- The principal events or conditions that may cast doubt on the entity's ability to continue as a going concern;
- Management's plans for dealing with these events or conditions;
- That there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
- That, therefore, the entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

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

We consider it in the public interest that the AUASB and NZAuASB reach agreement on the wording of the auditor's responsibilities in relation to going concern in the interim review report.

#### **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, provided the AUASB and NZAuASB reach consensus on such a description and provided it accurately describes the auditor's responsibilities in respect of going concern.

##### **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 do not agree with how the auditor's responsibility in relation to going concern has been described in the ED. Our reasons for this are as follows:

- We question if procedures are analogous to responsibilities. We believe responsibilities are at a higher level and broader than procedures.
- If taking a 'procedural requirement' approach, in our view just replicating paragraph 19 does not provide a complete list of requirements in relation to going concern.
- Listing specific procedures may be inferred as long-form reporting which may cause confusion.
- The absence of what the auditor is required to do if the outcome of said procedures indicates going concern issues leaves users to draw their own conclusions.

Given the importance of the underlying going concern assumption, we would expect there to be a separate section in the body of the standard that explicitly addresses the auditor's responsibility in relation to going concern. In contrast there is a separate section for the "Auditor's Responsibility for Other Information" (paragraphs 25-26), but the review report is silent about this. In our view it is this gap in ASRE 2410 that has resulted in the two boards arriving at different interpretations, and ideally this gap should be addressed in the first instance. The lack of clarity in this regard may pose a risk in terms of legal implications.

Paragraph 16 of the ED requires the auditor to conduct various procedures "to enable the auditor to conclude whether, on the basis of the procedures performed, anything has come to the auditor's attention that causes the auditor to believe that the financial report is not prepared, in all material respects, in accordance with the applicable financial reporting framework". Most entities undergoing an interim review would have the going concern assumption as an integral part of their accounting framework (eg paragraph 25, [AASB 101](#)).

We agree that an explicit conclusion on the appropriateness of the use of the going concern basis of accounting is not required in the review report itself. However, the appropriateness of the use of the going concern basis of accounting, the existence of a material uncertainty and whether or not this is adequately disclosed in the financial report, impacts on the type of conclusion the auditor expresses (paragraphs 50-52 of the ED). This therefore implies the auditor must be required to evaluate these aspects and form a view in order to issue the review report.

In a review engagement by an assurance practitioner who is not the auditor of the entity, when the assurance practitioner becomes aware of events or conditions that may cast significant doubt about the entity's ability to continue as a going concern, the assurance practitioner is required to "conclude whether the financial statements are materially misstated, or are otherwise misleading regarding the entity's ability to continue as a going concern" (paragraph 54, [ASRE 2400](#)). We believe it would be reasonable for users to expect the same work effort around going concern for an interim review conducted by the auditor

We encourage the board to consider if there is value in clarifying in the review report:

- What the auditor does *not* conclude on regarding going concern (eg confirming the future viability of the entity);
- That going concern remains an assumption by management about the foreseeable future and that assurance cannot be placed on future events; and
- That the going concern assumption is an area of significant judgement by both management and auditor.

On this basis we believe the NZAuASB's proposed option for the description more closely reflects the auditor's responsibility in relation to going concern.

## Appendix B

### About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 120,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations. We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation accounting professionals across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.