

NEW ZEALAND STANDARD ON REVIEW ENGAGEMENTS 2410

REVIEW OF FINANCIAL STATEMENTS PERFORMED BY THE INDEPENDENT AUDITOR OF THE ENTITY

Explanation of Decisions made by the NZAuASB in Finalising NZ SRE 2410

Issued December 2013

This document relates to, but does not form part of NZ SRE 2410, *Review of Financial Statements Performed by the Independent Auditor of the Entity* which was approved by the NZAuASB in December 2013. It provides the background as to why the Australian Standard on Review Engagements 2410, *Review of a Financial Report Performed by the Independent Auditor of the Entity* has been used to develop this New Zealand standard and the compelling reasons for changes made.

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**REVIEW OF FINANCIAL STATEMENTS PERFORMED BY THE INDEPENDENT AUDITOR OF THE
ENTITY**

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Issued by the New Zealand Auditing and Assurance Standards Board

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BACKGROUND

1. Internationally, the International Auditing and Assurance Standards Board (IAASB) has issued ISRE 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. This is an older standard last updated by the IAASB in 2006 and has not yet been amended in the clarity format. When the IAASB originally issued ISRE 2410, the intention was for that Standard to be used only by the auditor of the entity. This was in recognition that the auditor's knowledge of the entity's business differs from that of an assurance practitioner, who does not initially have the same level of knowledge of the business as the auditor of the entity. ISRE 2410 was later amended to enable ISRE 2410 to be used, by the auditor of the entity, for reviews of historical financial information for periods other than interim periods.
2. The IAASB has not revised ISRE 2410 and has not scheduled its revision.
3. In Australia, the Australian Auditing and Assurance Standards Board (AUASB) has issued ASRE 2410, Review of a Financial Report Performed by the Independent Auditor of the Entity. ASRE 2410 is of particular importance in Australia because it is legally enforceable, the most commonly used review standard and is necessary under the Corporations Act 2001. ASRE 2410 is based on ISRE 2410 but has been amended in the Australian context and has more recently been reformatted in the clarity format.
4. The NZAuASB issued an exposure draft ED 2013-2 proposing to adopt and amend ASRE 2410, because it is in the clarity format and conforms with international requirements. NZ SRE 2410, together with ISRE (NZ) 2400 supersede Review Standard 1. The ED was issued on 7 February 2013, with a comment deadline of 17 May 2013. The NZAuASB decided not to prioritise a revision of ISRE 2410 in the New Zealand context.
5. The NZAuASB has applied its Principles of Convergence to International Standards of the International Auditing and Assurance Standards Board and Harmonisation with the standards of the Australian Auditing and Assurance Standards Board in the development of an equivalent standard for application in New Zealand, that is, only including additional requirements to the international requirements where there are compelling reasons to do so.

THE RATIONALE FOR AMENDMENTS MADE TO ASRE 2410

Quality Control

6. The NZAuASB has decided to add a requirement to comply with ISA (NZ) 220 Quality Control for an Audit of Financial Statements. ISRE 2410 and ASRE 2410 refer to ISA 220 (or its equivalent) for guidance. The NZAuASB is of the view that these requirements apply equally to review engagements performed by the auditor. ISRE 2410 and ASRE 2410 do not outline clear requirements regarding quality

control which have been updated in the recently revised ISRE 2400. The NZAuASB proposes to include this reference and requirement to follow ISA (NZ) 220 instead of duplicating all of the requirements and application material. The NZAuASB considers it appropriate to cross refer to an auditing standard given that the engagement is performed by the auditor. Submissions received were generally supportive of this approach.

Scope

7. NZ SRE 2410 is to be applied, adapted as necessary, when an entity's auditor undertakes an engagement to review historical financial information other than financial statements of an audit client. This is consistent with ISRE 2410.
8. In Australia, a third review standard has been issued, ASRE 2405, which applies to review engagements of historical financial information other than financial statements. The NZAuASB is of the view that ISRE (NZ) 2400 and NZ SRE 2410 can be adapted as appropriate to apply to these engagements and that an additional standard is not necessary.

Fair presentation and compliance frameworks

9. ASRE 2410 does not cover compliance frameworks. NZ SRE 2410 covers both fair presentation and compliance frameworks, consistent with ISRE 2410. There is no compelling reason to differ from the international standard in this regard in New Zealand.

The existence of any relationship with the entity

10. The Review Report provides an independent auditor's conclusion. Given the importance of being and being seen to be independent, the NZAuASB considers that for transparency reasons it is appropriate for the assurance practitioner's report to include a statement as to the existence of any relationship (other than that of assurance practitioner) which the assurance practitioner has with, or any interests which the assurance practitioner has in, the entity or any of its subsidiaries. This has been added in the same manner in the International Standards on Auditing (New Zealand).

The Responsibilities of Those Charged with Governance

11. Those charged with governance are responsible for the financial statements. The NZAuASB is therefore of the view that there are compelling reasons to agree the terms of the engagement and obtain written representation from those charged with governance rather than with management. Such requirement may prompt those charged with governance, who are responsible for the financial statements to consider such matters more rigorously, thereby enhancing the quality of the representations and therefore audit quality.