

EXPOSURE DRAFT

ED 3/08
(April 2008)

**Proposed Standard on
Review Engagements
ASRE 2405**
*Review of Historical Financial
Information Other than a
Financial Report
(Replacement of AUS 902)*

Issued for Comment by the **Auditing and Assurance Standards
Board**



Australian Government

Auditing and Assurance Standards Board

Commenting on this Exposure Draft

Comments on this Exposure Draft should be forwarded so as to arrive by no later than 30 May 2008. Comments should be addressed to:

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A copy of all non-confidential submissions will be placed on public record on the AUASB website: www.auasb.gov.au.

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PREFACE

Reasons for Issuing ED 3/08

The Auditing and Assurance Standards Board (AUASB) makes Auditing Standards under section 336 of the *Corporations Act 2001* for the purposes of the corporations legislation and formulates auditing and assurance standards for other purposes.

The AUASB issues Standard on Review Engagements ASRE 2405 *Review of Historical Financial Information Other than a Financial Report* pursuant to the requirements of the legislative provisions explained below.

The *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* (the CLERP 9 Act) established the AUASB as an independent statutory body under section 227A of the *Australian Securities and Investments Commission Act 2001* (ASIC Act), as from 1 July 2004. Under section 227B of the ASIC Act the AUASB may formulate Assurance Standards for other purposes.

ASRE 2405 conforms with ISRE 2400 *Engagements to Review Financial Statements*, issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. Differences between this proposed Auditing Standard and ISRE 2400 are noted in paragraph 65 of this ED.

Main Proposals

This proposed Standard on Review Engagements (ASRE) establishes mandatory Requirements and provides Explanatory Guidance when undertaking, and reporting on, an engagement to review historical financial information other than a financial report.

Proposed Operative Date

It is proposed that this ASRE will be operative from 1 July 2008.

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Explanatory Guide

The pre-existing Auditing Standard AUS 902 *Review of Financial Reports* is applicable to a broad range of review engagements. Since the last revision of AUS 902, the AUASB has issued, or will issue concurrently with ASRE 2405, certain Auditing and Assurance Standards that, in specific circumstances, supersede the application of AUS 902.

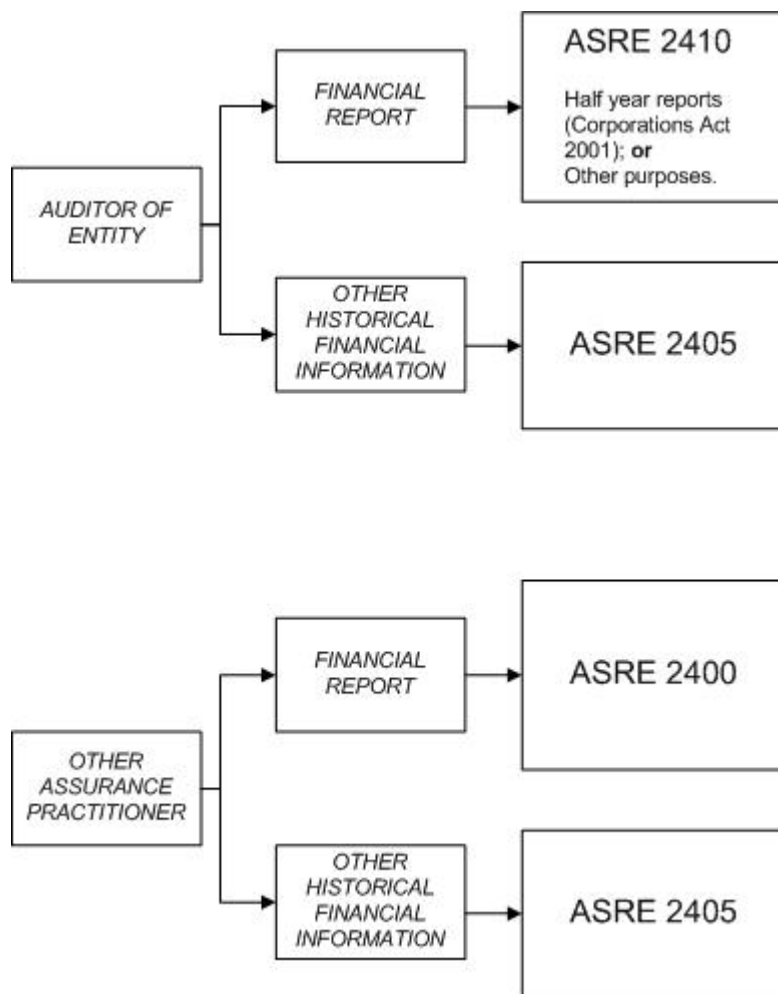
Details of the background and current application of the suite of AUASB Standards that apply to review engagements, are contained in the *Explanatory Guide to Review Engagements*, a copy of which may be obtained from the AUASB website: www.auasb.gov.au

The diagrams on the following pages are reproduced from the *Explanatory Guide to Review Engagements* to illustrate how the relevant AUASB Standards apply to review engagements.

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Diagram 1

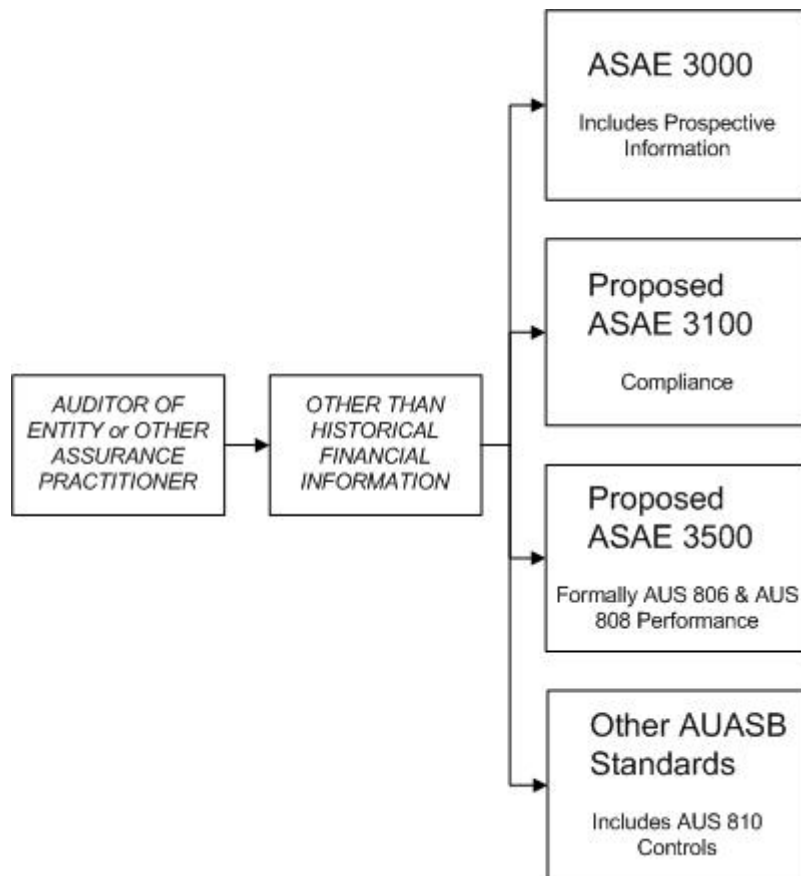
Standards Applicable to Reviews of Financial Reports Comprising Historical Financial Information, and Other Historical Financial Information.



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Diagram 2

Standards Applicable to Assurance Engagements including Reviews of Financial and Other Information not Comprising Historical Financial Information.



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Main changes from existing AUS 902 *Review of Financial Reports* (July 2002)

The main differences between this proposed ASRE and the Auditing Standard issued by the Auditing & Assurance Standards Board of the Australian Accounting Research Foundation that it supersedes, AUS 902 *Review of Financial Reports*, (July 2002) are that in this proposed ASRE:

1. The word ‘shall’, in the **bold-type** paragraphs, is the terminology used to describe an assurance practitioner’s mandatory requirements, whereas an assurance practitioner’s degree of responsibility was described in AUS 902 by the word ‘should’;
2. The explanatory paragraphs provide guidance and illustrative examples to assist the assurance practitioner in fulfilling the mandatory Requirements, whereas in AUS 902 some obligations were implied within certain explanatory paragraphs. Accordingly, such paragraphs have been redrafted to clarify that the matter forms part of the Explanatory Guidance;
3. The term “assurance practitioner”, used throughout this ASRE, includes the auditor of the entity.
4. Application of the Standard is restricted to reviews of historical financial information other than a financial report. The application of AUS 902 was not restricted in this way.
5. ASRE 2405 has been developed in recognition of the existence of other assurance Standards that have been issued, or are proposed to be issued, since AUS 902 was last revised, namely:
 - (a) ASRE 2400 *Reviews of Financial Reports Performed by an Assurance Practitioner Who is not the Auditor of the Entity*;
 - (b) ASRE 2410 *Reviews of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*;
 - (c) ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*;
 - (d) (Proposed) ASAE 3100 *Compliance Engagements*; and
 - (e) (Proposed) ASAE 3500 *Performance Engagements*.

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ASRE 2405 has been designed to:

- complement ASRE 2400, ASRE 2410, ASAE 3000, ASAE 3100 and ASAE 3500;
- complete the suite of review engagement Standards; and
- enable the withdrawal of AUS 902.

6. The following additional mandatory Requirements have been included:

6.1 This Standard on Review Engagements (ASRE) applies to a review of historical financial information, other than a financial report (paragraph 1).

6.2 Where in rare and exceptional circumstances, factors outside the assurance practitioner's control prevent the assurance practitioner from complying with a relevant mandatory requirement of this ASRE, the assurance practitioner shall:

- (a) if possible, perform appropriate alternative procedures; and
- (b) document in the working papers:
 - (i) the circumstances surrounding the inability to comply;
 - (ii) the reasons for the inability to comply; and
 - (iii) justification of how alternative procedures achieve the objectives of the mandatory requirement.

When the assurance practitioner is unable to perform appropriate alternative procedures, the assurance practitioner shall consider the implications for the assurance practitioner's review report (paragraph 7).

[Note: Although a similar paragraph is included in AUS 902, paragraph 7 is included in this listing to highlight the conditions and specific requirements in ASRE 2405].

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- 6.3 The assurance practitioner shall implement quality control procedures that are relevant to the individual engagement (paragraph 11).
- 6.4 The assurance practitioner shall evaluate, individually and in the aggregate, whether uncorrected misstatements that have come to the assurance practitioner's attention are material to the financial information (paragraph 36).
- 6.5 The assurance practitioner shall endeavour to obtain written representations from management that:
- (a) they acknowledge their responsibility for the design and implementation of internal control to prevent and detect fraud and error;
 - (b) the financial information is prepared and presented in accordance with the applicable criteria;
 - (c) they believe the effect of those uncorrected misstatements aggregated by the assurance practitioner during the review are immaterial, both individually and in the aggregate, to the financial information taken as a whole. A summary of such items is included in or attached to the written representations;
 - (d) they have disclosed to the assurance practitioner the results of their assessment of the risk that the financial information may be materially misstated as a result of fraud;
 - (e) they have disclosed to the assurance practitioner all significant facts relating to any frauds or suspected frauds known to them that may have affected the entity;
 - (f) they have disclosed to the assurance practitioner all known actual or possible non-compliance with laws and regulations the effects of which are to be considered when preparing the financial information; and
 - (g) they have disclosed to the assurance practitioner all significant events that have occurred subsequent to the date of the financial information

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and through to the date of the review report that may require adjustment to or disclosure in the financial information (paragraph 40).

- 6.6 If those charged with governance refuse to provide a written representation that the assurance practitioner considers necessary, this constitutes a limitation on the scope of the assurance practitioner's work and the assurance practitioner shall express a qualified conclusion or a disclaimer of conclusion (paragraph 42).
- 6.7 The assurance practitioner shall read the other information that accompanies the financial information to consider whether any such information is materially inconsistent with the financial information (paragraph 43).
- 6.8 If a matter comes to the assurance practitioner's attention that causes the assurance practitioner to believe that the other accompanying information appears to include a material misstatement of fact, the assurance practitioner shall discuss the matter with the entity's management (paragraph 46).
- 6.9 When, as a result of performing the review of financial information, a matter comes to the assurance practitioner's attention that causes the assurance practitioner to believe that it is necessary to make a material adjustment to the financial information for it to be prepared, or presented fairly, in all material respects, in accordance with the applicable criteria, the assurance practitioner shall communicate this matter as soon as practicable to the appropriate level of management (paragraph 48).
- 6.10 When, in the assurance practitioner's judgement, management does not respond appropriately within a reasonable period of time, the assurance practitioner shall inform those charged with governance (paragraph 49).
- 6.11 When, in the assurance practitioner's judgement, those charged with governance do not respond appropriately within a reasonable period of time, the assurance practitioner shall consider:
- (a) whether to modify the report; or

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- (b) the possibility of withdrawing from the engagement; and
 - (c) when also the auditor, the possibility of resigning from the appointment to audit the annual financial report (paragraph 51).
- 6.12 When, as a result of performing the review of financial information, a matter comes to the assurance practitioner's attention that causes the assurance practitioner to believe in the existence of fraud or non-compliance by the entity with laws and regulations, the assurance practitioner shall communicate the matter as soon as practicable to those charged with governance and shall consider the implications for the review (paragraph 52).
- 6.13 The assurance practitioner shall communicate relevant matters of governance interest arising from the review of the financial information to those charged with governance (paragraph 54).
- 7. The "Objective of a Review Engagement" is included in AUS 902 as a mandatory paragraph (black lettering). However, the equivalent "Objective of a Review of Historical Financial Information, Other than a Financial Report" paragraph has been included in ASRE 2405 as Explanatory Guidance. This change has been adopted to acknowledge the contextual nature of the subject matter and to be consistent with ASRE 2400 and ASRE 2410. The amendment does not diminish the quality of the standard or the obligations of an assurance practitioner (paragraphs 15-17).
- 8. AUS 902 included a separate mandatory paragraph relating to the direction, supervision and review of work performed by assistants. In ASRE 2405, this requirement is addressed by the mandatory Requirements to comply with professional standards (paragraph 8) and with quality control procedures (paragraph 11).
- 9. AUS 902 includes a mandatory paragraph relating to the use of the work of another auditor and a mandatory paragraph relating to the use of the work of an expert. In ASRE 2405, these requirements have been combined and are addressed by a single mandatory Requirement (paragraph 27).
- 10. Where appropriate, the wording of mandatory Requirements in ASRE 2405 originating from AUS 902, has been updated to conform with ASRE 2400 and other AUASB pronouncements.

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11. AUS 902 includes five Explanatory Guidance paragraphs under the heading “Moderate Assurance”. This guidance has not been included in ASRE 2405 as it would duplicate the equivalent information contained within the AUASB pronouncement Framework for Assurance Engagements which more comprehensively explains “limited assurance”.

Request for Comments

Prior Exposure and Subsequent Changes

In September 2007, the AUASB issued ED 4/07 Proposed Standard on Review Engagements ASRE 2400 *Review of Financial Reports and Other Historical Financial Information*. The proposed Standard was developed as a composite Standard, Part A dealing with the review of financial reports and Part B dealing with the review of other historical financial information. The comment period closed on 31 October 2007.

A significant change suggested by respondents was that the composite standard be re-drafted as two separate Standards. The AUASB agreed with this suggestion.

Prior to final AUASB approval of the post-exposure review Standards, the International Auditing and Assurance Standards Board (IAASB) approved changes to ISRE 2400 and ISRE 2410. These changes necessitated amendments to the pre-existing Australian Standard ASRE 2410 as well as to the two new proposed Standards.

The AUASB considers the changes described above are significant and therefore warrant further selective exposure. Second round exposure process is described in the *Foreword to AUASB Pronouncements*, paragraph 42.

Comments on Changes

Comments are invited on the main changes between this proposed Standard, ASRE 2405 and the previous ED 4/07 proposed Standard, ASRE 2400 Part B. The main change between this proposed Standard ASRE 2400 and the previous ED 4/07 is that ED 4/07 proposed a composite Australian Standard on Review Engagements—ASRE 2400 Part A, dealing with the review of financial reports and Part B dealing with the review of other historical financial information whereas ED 3/08 proposes that ASRE 2400 (Part B) be issued as a stand-alone Standard.

Comments should be received at the AUASB no later than 30 May 2008.

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In addition, respondents are asked to consider and respond to the following questions:

1. What are the additional significant costs, if any, to assurance service providers and the business community for compliance with the main changes proposed, and, if so, do they outweigh the benefits to the users of the assurance service?
2. Are there any significant public interest matters that respondents wish to raise?

The AUASB would prefer that respondents express a clear overall opinion on whether the revised proposed ASRE, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on any matter. The AUASB regards both critical and supportive comments as essential to a balanced review of the proposed ASRE.

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PROPOSED AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates this Proposed Standard on Review Engagements ASRE 2405 *Review of Historical Financial Information Other than a Financial Report* as set out in paragraphs 1 to 65 and Appendices 1 to 5, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*.

This Proposed Standard on Review Engagements is to be read in conjunction with ASA 100 *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the Standards on Review Engagements are to be understood, interpreted and applied.

The mandatory requirements of this Proposed Standard on Review Engagements are set out in **bold-type** paragraphs.

PROPOSED STANDARD ON REVIEW ENGAGEMENTS ASRE 2405

Review of Historical Financial Information Other than a Financial Report

Application

- 1 This Standard on Review Engagements (ASRE) applies to a review of historical financial information, other than a financial report.**

Operative Date

- 2 This ASRE is operative for reporting periods or engagements commencing on or after 1 July 2008.**

Introduction

- 3 The purpose of this ASRE is to establish mandatory requirements and to provide explanatory guidance on the assurance practitioner's professional responsibilities when an assurance practitioner undertakes an engagement to review historical financial information, other than a financial report, and on the form and content of the assurance practitioner's review report.
- 4 For purposes of this ASRE, an assurance practitioner is a person or an organisation, whether in public practice, industry, commerce or the public sector, involved in the provision of assurance services.
- 5 For purposes of this ASRE, historical financial information, other than a financial report includes:
 - (a) specific components, elements, accounts or items of a financial report, such as:
 - (i) a single financial statement, for example, an income statement or balance sheet;
 - (ii) accounts receivable;
 - (iii) impairment of asset accounts;
 - (iv) inventory;

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- (v) the liability for accrued benefits of a defined benefits plan;
 - (vi) the recorded value of identified intangible assets;
 - (vii) pro-forma historical financial information and adjustments;
 - (viii) the liability for “incurred but not reported” claims in an insurance portfolio, including related explanatory notes;
- (b) other information derived from financial records, such as:
- (i) a schedule of externally managed assets and income of a private pension plan, including related explanatory notes;
 - (ii) a schedule of net tangible assets, including related explanatory notes;
 - (iii) a schedule of disbursements in relation to a leased property, including related explanatory notes; and
 - (iv) a schedule of profit participation or employee bonuses, including related explanatory notes; and
- (c) financial statements prepared in accordance with a financial reporting framework that is not designed to achieve fair presentation, such as condensed financial statements and an entity’s internal “management accounts”.

6 The assurance practitioner shall conduct a review of historical financial information, other than a financial report, in accordance with this ASRE.

7 Where in rare and exceptional circumstances, factors outside the assurance practitioner’s control prevent the assurance practitioner from complying with a relevant mandatory requirement of this ASRE, the assurance practitioner shall:

- (a) **if possible, perform appropriate alternative procedures; and**
- (b) **document in the working papers:**

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- (i) **the circumstances surrounding the inability to comply;**
- (ii) **the reasons for the inability to comply; and**
- (iii) **justification of how alternative procedures achieve the objectives of the mandatory requirement.**

When the assurance practitioner is unable to perform appropriate alternative procedures, the assurance practitioner shall consider the implications for the assurance practitioner's review report.

General Principles of a Review of Historical Financial Information, Other than a Financial Report

8 The assurance practitioner shall comply with the fundamental ethical principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

9 The applicable code of conduct of a professional accounting body¹ provides appropriate guidance on the application of fundamental ethical principles.

10 The applicable code of conduct of a professional accounting body provides a framework of principles that members of assurance teams, firms and network firms use to identify threats to independence, evaluate the significance of those threats and, if the threats are other than clearly insignificant

- (a) identify and apply safeguards to eliminate the threats; or
- (b) reduce them to an acceptable level,

such that independence of mind and independence in appearance are not compromised.

11 The assurance practitioner shall implement quality control procedures that are relevant to the individual engagement.

¹ The applicable code of conduct of the professional accounting bodies is *APES 110 Code of Ethics for Professional Accountants*, as issued from time to time by the Accounting Professional and Ethical Standards Board. This code of conduct has been adopted by CPA Australia, National Institute of Accountants and The Institute of Chartered Accountants in Australia. In addition, codes of conduct issued by other professional bodies may apply.

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- 12 The elements of quality control that are relevant to an individual engagement include leadership responsibilities for quality on the engagement, ethical requirements, acceptance and continuance of client relationships and specific engagements, assignment of engagement teams, engagement performance, and monitoring.²
- 13 **The assurance practitioner shall plan and perform the review by exercising professional judgement and with an attitude of professional scepticism, recognising that circumstances may exist that cause the financial information to be materially misstated.**
- 14 **For the purpose of expressing limited assurance in the review report, the assurance practitioner shall obtain sufficient appropriate evidence primarily through enquiry and analytical procedures to be able to draw conclusions.**

Objective of an Engagement to Review of Historical Financial Information Other than a Financial Report

- 15 The objective of a review of historical financial information, other than a financial report, is to enable the assurance practitioner to express a conclusion whether, on the basis of the review, anything has come to the assurance practitioner's attention that causes the assurance practitioner to believe that the historical financial information, other than a financial report, is not prepared, or presented fairly, in all material respects, in accordance with the applicable criteria (limited assurance). Under paragraph 14 of this ASRE, the assurance practitioner needs to make enquiries and perform analytical and other review procedures in order to reduce to a limited level the risk of expressing an inappropriate conclusion when the historical financial information, other than a financial report, is materially misstated.
- 16 The objective of a review of historical financial information, other than a financial report, differs significantly from that of an audit conducted in accordance with Auditing Standards. A review of historical financial information, other than a financial report, does not provide a basis for expressing an opinion whether the historical financial information, other than a financial report, gives a true and fair view, or is presented fairly, in all material respects, in

² The quality control procedures relevant to an audit engagement are contained in Auditing Standards ASA 220 *Quality Control for Audits of Historical Financial Information*, and may be helpful in determining quality control procedures relevant to a review engagement.

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accordance with the applicable criteria or financial reporting framework.

- 17 A review, in contrast to an audit, is not designed to obtain reasonable assurance that the historical financial information, other than a financial report, is free from material misstatement. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review may bring significant matters affecting the historical financial information, other than a financial report to the assurance practitioner's attention, but it does not provide all of the evidence that would be required in an audit.

**Scope of a Review of Historical Financial Information
Other than a Financial Report**

- 18 **The procedures required to conduct a review of historical financial information, other than a financial report, shall be determined by the assurance practitioner having regard to the requirements of this ASRE, relevant professional bodies, legislation, regulation, the terms of the review engagement and, where appropriate, prescribed reporting requirements.**
- 19 The term "scope of an engagement to review historical financial information, other than a financial report," refers to the review procedures deemed necessary in the circumstances to achieve the objective of the review.

Agreeing the Terms of the Engagement

- 20 **The assurance practitioner shall agree the terms of the engagement with the entity, which shall be recorded in writing by the assurance practitioner and forwarded to the entity. When the review engagement is undertaken pursuant to legislation, the minimum applicable terms are those contained in the legislation.**
- 21 An engagement letter, or other suitable form, will be of assistance in planning the review work. It is in the interests of both the assurance practitioner and the entity that the assurance practitioner sends an engagement letter, preferably before the commencement of the engagement, documenting the key terms of the appointment.
- 22 An engagement letter confirms the assurance practitioner's acceptance of the appointment and helps avoid misunderstanding regarding such matters as the objective(s) and scope of the

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engagement, the extent of the assurance practitioner's responsibilities and the form of report to be issued.

- 23 Ordinarily, matters that are contained in the engagement letter include the following:
- The objective(s) of the review being performed.
 - The scope of the review, including reference to this ASRE.
 - The criteria being applied as the basis of reporting.
 - The responsibilities of management, and where appropriate, those charged with governance, for the financial information and criteria used.
 - Unrestricted access to whatever records, documentation and other information requested in connection with the review.
 - Agreement from management and, where appropriate, those charged with governance, to provide written representations.
 - A sample of the review report expected to be rendered with provision that the review report may be modified.
 - The fact that the engagement cannot be relied upon to identify fraud, errors, illegal acts or other irregularities that may exist.
 - A statement that an audit is not being performed and that an audit opinion will not be expressed. To emphasize this point and to avoid confusion, the assurance practitioner may also consider pointing out that a review engagement will not satisfy any statutory or third party requirements for an audit.

Appendix 1 to this ASRE contains an illustrative engagement letter.

Planning

- 24 **The assurance practitioner shall plan the review so that an effective engagement will be performed.**
- 25 **In planning a review of financial information, the assurance practitioner shall obtain or update their knowledge of the**

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business including consideration of the entity's organisation, accounting systems, operating characteristics and the nature of its assets, liabilities, revenues and expenses, to the extent required to achieve the objective of the engagement.

- 26 Under paragraph 25 of this ASRE, the assurance practitioner needs to obtain an understanding of such matters and other matters relevant to the financial information, for example, a knowledge of the entity's production and distribution methods, product lines, operating locations and related parties. Under paragraphs 24 and 25 of this ASRE, the assurance practitioner needs this understanding to be able to make relevant enquiries and to design appropriate procedures, as well as to assess the responses and other information obtained.

Work Performed by Others

- 27 **When using work performed by another assurance practitioner or an expert, the assurance practitioner shall be satisfied that such work is adequate for the purposes of the review.**

Procedures and Evidence

- 28 **The assurance practitioner shall apply judgement in determining the specific nature, timing and extent of review procedures.**
- 29 The assurance practitioner may be guided by such matters as the following:
- Any knowledge acquired by carrying out audits or reviews of financial statements or reports for prior periods.
 - The assurance practitioner's knowledge of the business including knowledge of the accounting principles and practices of the industry in which the entity operates.
 - The entity's accounting systems.
 - The extent to which a particular item is affected by management judgement.
 - The materiality of transactions and account balances in the context of the financial information.

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- Any first-time inclusion of comparative financial information.
- 30 The assurance practitioner shall consider materiality, using professional judgement, when:**
- (a) determining the nature, timing and extent of review procedures; and**
 - (b) evaluating the effect of misstatements.**
- 31 Although there is a greater risk that misstatements will not be detected in a review than in an audit, the judgement as to what is material is made by reference to the information on which the assurance practitioner is reporting and the needs of those relying on that information, not to the level of assurance provided.
- 32 Procedures for the review of historical financial information, other than a financial report may ordinarily include the following:
- Obtaining an understanding of the industry in which the entity operates.
 - Enquiries concerning the entity's accounting principles and practices.
 - Enquiries concerning the entity's procedures for recording, classifying and summarizing transactions, accumulating information for disclosure in the financial information and preparing the financial information.
 - Enquiries concerning all material assertions in the financial information.
 - Analytical procedures designed to identify relationships and individual items that appear unusual. Such procedures may include:
 - ◆ Comparison of the financial information with information for prior periods.
 - ◆ Comparison of the financial information with expectations.
 - ◆ Study of the relationships of the elements of the financial information that would be expected to

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conform to a predictable pattern based on the entity's experience or industry norm.

In applying these procedures, the assurance practitioner ordinarily considers the types of matters that required accounting adjustments in prior periods.

- Enquiries concerning actions taken at meetings of shareholders, those charged with governance and other meetings that may affect the financial information.
- Reading the financial information to consider, on the basis of any matter that comes to the assurance practitioner's attention, whether the financial information appears to conform with the basis of accounting indicated.
- Obtaining reports from other assurance practitioners, if any, and if considered necessary, who have been engaged to audit or review the financial statements of components of the entity.
- Enquiries of persons having responsibility for financial, accounting and others matters concerning, for example:
 - ◆ Whether all transactions have been recorded.
 - ◆ Whether the financial information has been prepared and presented in accordance with the applicable criteria e.g., basis of accounting.
 - ◆ Whether there have been significant changes in the entity's business activities and/or accounting principles and practices.
 - ◆ Matters as to which questions have arisen in the course of applying the review procedures.
- Obtaining written representations from management.

Appendix 4 to this ASRE provides an illustrative list of procedures that the assurance practitioner may consider when performing a review. The list is not exhaustive, nor is it intended that all the procedures suggested apply to every review engagement.

33 The assurance practitioner shall enquire about events subsequent to the date of the financial information that may

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require adjustment of, or disclosure in, the financial information.

- 34 Under paragraph 33 of this ASRE, the assurance practitioner need not perform procedures to identify events occurring after the date of the review report.
- 35 **If the assurance practitioner has reason to believe that the financial information subject to review may be materially misstated, the assurance practitioner shall carry out additional or more extensive procedures as are necessary to be able to express a limited assurance conclusion or to confirm that a modified report is required.**

Evaluation of Misstatements

- 36 **The assurance practitioner shall evaluate, individually and in the aggregate, whether uncorrected misstatements that have come to the assurance practitioner's attention are material to the financial information.**
- 37 A review of financial information, in contrast to an audit engagement, is not designed to obtain reasonable assurance that the financial information is free from material misstatement. However, under paragraph 36 of this ASRE, misstatements which come to the assurance practitioner's attention, including inadequate disclosures, need to be evaluated individually and in the aggregate to determine whether a material adjustment is required to be made to the financial information for it to be prepared, or presented fairly, in all material respects, in accordance with the applicable criteria.
- 38 Under paragraph 36 of this ASRE, the assurance practitioner needs to exercise professional judgement in evaluating the materiality of any misstatements that the entity has not corrected. Ordinarily, the assurance practitioner considers matters such as the nature, cause and amount of the misstatements, whether the misstatements originated in the preceding year or period of the current year, and the potential effect of the misstatements on future periods.
- 39 The assurance practitioner may designate an amount below which misstatements need not be aggregated, because the assurance practitioner expects that the aggregation of such amounts clearly would not have a material effect on the financial information. In so doing, under paragraph 30 of this ASRE, the assurance practitioner needs to consider the fact that the determination of materiality involves quantitative as well as qualitative considerations and that

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misstatements of a relatively small amount could nevertheless have a material effect on the financial information.

Management Representations

- 40** **The assurance practitioner shall endeavour to obtain written representations from management that:**
- (a) they acknowledge their responsibility for the design and implementation of internal control to prevent and detect fraud and error;**
 - (b) the financial information is prepared and presented in accordance with the applicable criteria;**
 - (c) they have disclosed to the assurance practitioner the results of their assessment of the risk that the financial information may be materially misstated as a result of fraud;**
 - (d) they believe the effect of those uncorrected misstatements aggregated by the assurance practitioner during the review are immaterial, both individually and in the aggregate, to the financial information taken as a whole. A summary of such items is included in or attached to the written representations;**
 - (e) they have disclosed to the assurance practitioner all significant facts relating to any frauds or suspected frauds known to them that may have affected the entity;**
 - (f) they have disclosed to the assurance practitioner all known actual or possible non-compliance with laws and regulations the effects of which are to be considered when preparing the financial information; and**
 - (g) they have disclosed to the assurance practitioner all significant events that have occurred subsequent to the date of the financial information and through to the date of the review report that may require adjustment to or disclosure in the financial information.**
- 41** Under paragraph 40 of this ASRE, the assurance practitioner needs to endeavour to obtain additional representations as are appropriate to matters specific to the entity's business or industry. Appendix 2

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to this ASRE contains an illustrative management representation letter.

- 42 If those charged with governance refuse to provide a written representation that the assurance practitioner considers necessary, this constitutes a limitation on the scope of the assurance practitioner's work and the assurance practitioner shall express a qualified conclusion or a disclaimer of conclusion.**

Assurance Practitioner's Responsibility for Accompanying Information

- 43 The assurance practitioner shall read the other information that accompanies the financial information to consider whether any such information is materially inconsistent with the financial information.**

44 Ordinarily, the practitioner makes appropriate arrangements with the entity to obtain the other information on a timely basis.

45 If the assurance practitioner identifies a material inconsistency, under paragraph 43 of this ASRE, the assurance practitioner needs to consider whether the financial information or the other accompanying information needs to be amended. If an amendment is necessary in the financial information and those charged with governance refuse to make the amendment, under paragraph 51 of this ASRE, the assurance practitioner needs to consider the implications for the review report. If an amendment is necessary in the other accompanying information and those charged with governance refuse to make the amendment, the assurance practitioner may, for example, consider including in the review report an additional paragraph (emphasis of matter) describing the material inconsistency or taking other actions, such as withholding the issuance of the review report, or withdrawing from the engagement.

- 46 If a matter comes to the assurance practitioner's attention that causes the assurance practitioner to believe that the other accompanying information appears to include a material misstatement of fact, the assurance practitioner shall discuss the matter with the entity's management.**

47 While reading the other accompanying information for the purpose of identifying material inconsistencies, an apparent material misstatement of fact may come to the assurance practitioner's

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attention (i.e. information, not related to matters appearing in the financial information, that is incorrectly stated or presented). When discussing the matter with the entity's management, ordinarily the assurance practitioner considers the validity of the other accompanying information and management's responses to the assurance practitioner's enquiries, whether valid differences of judgement or opinion exist, and whether to request management to consult with a qualified third party to resolve the apparent misstatement of fact. If an amendment is necessary to correct a material misstatement of fact and management refuses to make the amendment, ordinarily the assurance practitioner considers taking further action as appropriate, such as notifying those charged with governance and, if necessary, obtaining legal advice.

Communication

- 48** When, as a result of performing the review of financial information, a matter comes to the assurance practitioner's attention that causes the assurance practitioner to believe that it is necessary to make a material adjustment to the financial information for it to be prepared, or presented fairly, in all material respects, in accordance with the applicable criteria, the assurance practitioner shall communicate this matter as soon as practicable to the appropriate level of management.
- 49** When, in the assurance practitioner's judgement, management does not respond appropriately within a reasonable period of time, the assurance practitioner shall inform those charged with governance.
- 50 Such communications are made as soon as practicable, either orally or in writing. The assurance practitioner's decision whether to communicate orally or in writing ordinarily is affected by factors such as the nature, sensitivity and significance of the matter to be communicated and the timing of the communications. If the information is communicated orally, under paragraph 63 of this ASRE, the assurance practitioner needs to document the communication.
- 51** When, in the assurance practitioner's judgement, those charged with governance do not respond appropriately within a reasonable period of time, the assurance practitioner shall consider:
- (a) whether to modify the report; or

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- (b) **the possibility of withdrawing from the engagement; and**
 - (c) **when also the auditor, the possibility of resigning from the appointment to audit the annual financial report.**
- 52 **When, as a result of performing the review of financial information, a matter comes to the assurance practitioner's attention that causes the assurance practitioner to believe in the existence of fraud or non-compliance by the entity with laws and regulations, the assurance practitioner shall communicate the matter as soon as practicable to those charged with governance and shall consider the implications for the review.**
- 53 The determination of which level of management may also be informed is affected by the likelihood of collusion or the involvement of a member of management. Under paragraph 52 of this ASRE, the assurance practitioner needs to report such matters to those charged with governance.
- 54 **The assurance practitioner shall communicate relevant matters of governance interest arising from the review of the financial information to those charged with governance.**
- 55 As a result of performing a review of financial information, the assurance practitioner may become aware of matters that, in the opinion of the assurance practitioner, are both important and relevant to those charged with governance. Under paragraph 54 of this ASRE, the assurance practitioner needs to communicate such matters to those charged with governance.

Conclusions and Reporting

- 56 **An unmodified review report shall contain a clear written expression of limited assurance. The assurance practitioner shall review and assess the conclusions drawn from the evidence obtained as the basis for the expression of limited assurance.**
- 57 **Based on the work performed, the assurance practitioner shall assess whether any information obtained during the review indicates that the financial information is not prepared, or presented fairly, in all material respects, in accordance with the applicable criteria.**
- 58 Under paragraph 59, the report on a review of financial information needs to describe the scope of the engagement to enable the reader

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to understand the nature of the work performed and make it clear that an audit was not performed and, therefore, that an audit opinion is not expressed.

- 59 The report on a review of financial information shall contain the following basic elements:**
- (a) Title³;**
 - (b) Addressee;**
 - (c) Opening or introductory paragraph including:**
 - (i) Identification of the financial information on which the review has been performed;**
 - (ii) A statement of the responsibility of those charged with governance of the entity, including the identification of the applicable criteria, and the responsibility of the assurance practitioner; and**
 - (iii) A statement, where appropriate, that the financial information has been prepared for a particular purpose and user(s), and any express restriction on the distribution of the review report or on those entitled to rely on it;**
 - (d) A paragraph describing the nature of a review, including:**
 - (i) A reference to this ASRE applicable to review engagements;**
 - (ii) A statement that a review is limited primarily to enquiries and analytical procedures; and**
 - (iii) A statement that an audit has not been performed, that the procedures undertaken provide less assurance than an audit and that an audit opinion is not expressed;**

³ It may be appropriate to use the term “independent” in the title to distinguish the assurance practitioner’s report from reports that might be issued by others, such as officers of the entity, or from the reports of other practitioners who may not have to abide by the same ethical requirements as an independent practitioner.

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- (e) **A conclusion of limited assurance;**
- (f) **Date of the review report;**
- (g) **Assurance practitioner's address; and**
- (h) **Assurance practitioner's signature.**

Appendix 5 to this ASRE contains an illustrative review report.

60 The review report shall:

- (a) **State a conclusion that, on the basis of the review, nothing has come to the assurance practitioner's attention that causes the assurance practitioner to believe that the historical financial information is not prepared, or presented fairly, in all material respects, in accordance with the applicable criteria; or**
- (b) **If matters have come to the assurance practitioner's attention, describe those matters that cause the assurance practitioner to believe that the historical financial information is not prepared, or presented fairly, in all material respects, in accordance with the applicable criteria, including, unless impracticable, a quantification of the possible effect(s) on the historical financial information, and either:**
 - (i) **Express a qualification of the limited assurance provided; or**
 - (ii) **When the effect of the matter is so material and pervasive to the financial information that the assurance practitioner concludes that a qualification is not adequate to disclose the misleading or incomplete nature of the financial information, express an adverse conclusion that the financial information is not prepared, or presented fairly, in all material respects, in accordance with the applicable criteria; or**
- (c) **If there has been a material scope limitation, describe the limitation and either:**
 - (i) **Express a qualification of the limited assurance provided regarding the possible adjustments to**

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the financial information that might have been determined to be necessary had the limitation not existed; or

(ii) When the possible effect of the limitation is so significant and pervasive that the assurance practitioner concludes that no level of assurance can be provided, not provide any assurance; and

(d) When considered necessary by the assurance practitioner, include an emphasis of matter section, suitably headed and placed immediately after the conclusion.

61 The circumstances under which an auditor is required to include an emphasis of matter paragraph in the auditor's report, and the form of such reporting, are described in ASA 701 *Modifications to the Auditor's Report*. ASA 701 may be helpful in determining the need for an emphasis of matter paragraph, and the form of such reporting, in an assurance practitioner's review report.

62 The assurance practitioner shall date the review report as of the date the review is completed, which includes performing procedures relating to events occurring up to the date of the report. However, since the assurance practitioner's responsibility is to report on the financial information as prepared and presented by management, or where applicable, those charged with governance, the assurance practitioner shall not date the review report earlier than the date on which the financial information was approved by management, or where applicable, those charged with governance.

Documentation

63 The assurance practitioner shall document matters which are important in providing evidence to support the review report, and evidence that the review was carried out in accordance with this ASRE.

64 Under paragraph 63 of this ASRE, the assurance practitioner needs to prepare documentation that enables an experienced assurance practitioner, having no previous connection with the engagement, to understand the nature, timing and extent of the enquiries made and analytical and other review procedures applied, information

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obtained, and any significant matters considered during the performance of the review, including the disposition of such matters.

Conformity with International Standards on Review Engagements

- 65 Except as noted below, this ASRE conforms with International Standard on Review Engagements ISRE 2400 *Engagements to Review Financial Statements*, issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. The main differences between this ASRE and ISRE 2400 are:
- ASRE 2405 includes the following mandatory requirements and related explanatory guidance paragraphs that are not in ISRE 2400:
 - ◆ This ASRE applies to a review of historical financial information, other than a financial report (paragraph 1).
 - ◆ Where in rare and exceptional circumstances, factors outside the assurance practitioner's control prevent the assurance practitioner from complying with a relevant mandatory requirement of this ASRE, the assurance practitioner shall:
 - (a) if possible, perform appropriate alternative procedures; and
 - (b) document in the working papers:
 - (i) the circumstances surrounding the inability to comply;
 - (ii) the reasons for the inability to comply; and
 - (iii) justification of how alternative procedures achieve the objectives of the mandatory requirement.

When the assurance practitioner is unable to perform appropriate alternative procedures, the assurance practitioner shall consider the

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implications for the assurance practitioner's review report (paragraph 7).

- ◆ The assurance practitioner shall implement quality control procedures that are relevant to the individual engagement (paragraph 11).
- ◆ The assurance practitioner shall evaluate, individually and in the aggregate, whether uncorrected misstatements that have come to the assurance practitioner's attention are material to the financial information (paragraph 36).
- ◆ The assurance practitioner shall endeavour to obtain written representations from management that:
 - (a) they acknowledge their responsibility for the design and implementation of internal control to prevent and detect fraud and error;
 - (b) the financial information is prepared and presented in accordance with the applicable criteria;
 - (c) they believe the effect of those uncorrected misstatements aggregated by the assurance practitioner during the review are immaterial, both individually and in the aggregate, to the financial information taken as a whole. A summary of such items is included in or attached to the written representations;
 - (d) they have disclosed to the assurance practitioner the results of their assessment of the risk that the financial information may be materially misstated as a result of fraud;
 - (e) they have disclosed to the assurance practitioner all significant facts relating to any frauds or suspected frauds known to them that may have affected the entity;

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- (f) they have disclosed to the assurance practitioner all known actual or possible non-compliance with laws and regulations the effects of which are to be considered when preparing the financial information; and
 - (g) they have disclosed to the assurance practitioner all significant events that have occurred subsequent to the date of the financial information and through to the date of the review report that may require adjustment to or disclosure in the financial information (paragraph 40).
- ◆ If those charged with governance refuse to provide a written representation that the assurance practitioner considers necessary, this constitutes a limitation on the scope of the assurance practitioner's work and the assurance practitioner shall express a qualified conclusion or a disclaimer of conclusion (paragraph 42).
 - ◆ The assurance practitioner shall read the other information that accompanies the financial information to consider whether any such information is materially inconsistent with the financial information (paragraph 43).
 - ◆ If a matter comes to the assurance practitioner's attention that causes the assurance practitioner to believe that the other accompanying information appears to include a material misstatement of fact, the assurance practitioner shall discuss the matter with the entity's management (paragraph 46).
 - ◆ When, as a result of performing the review of financial information, a matter comes to the assurance practitioner's attention that causes the assurance practitioner to believe that it is necessary to make a material adjustment to the financial information for it to be prepared, or presented fairly, in all material respects, in accordance with the applicable criteria, the assurance practitioner shall communicate this matter as soon as

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- practicable to the appropriate level of management (paragraph 48).
- ◆ When, in the assurance practitioner’s judgement, management does not respond appropriately within a reasonable period of time, the assurance practitioner shall inform those charged with governance (paragraph 49).
 - ◆ When, in the assurance practitioner’s judgement, those charged with governance do not respond appropriately within a reasonable period of time, the assurance practitioner shall consider:
 - (a) whether to modify the report; or
 - (b) the possibility of withdrawing from the engagement; and
 - (c) when also the auditor, the possibility of resigning from the appointment to audit the annual financial report (paragraph 51).
 - ◆ When, as a result of performing the review of financial information, a matter comes to the assurance practitioner’s attention that causes the assurance practitioner to believe in the existence of fraud or non-compliance by the entity with laws and regulations, the assurance practitioner shall communicate the matter as soon as practicable to those charged with governance and shall consider the implications for the review (paragraph 52).
 - ◆ The assurance practitioner shall communicate relevant matters of governance interest arising from the review of the financial information to those charged with governance (paragraph 54).
 - The “Objective of a Review Engagement” is included in ISRE 2400 as a mandatory paragraph (black lettering). However, the equivalent “Objective of a Review of Historical Financial Information, Other than a Financial Report,” paragraph is included in ASRE 2405 as Explanatory Guidance (paragraph 15-17).

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Compliance with this Standard on Review Engagements enables compliance with ISRE 2400.

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APPENDIX 1

**EXAMPLE OF AN ENGAGEMENT LETTER FOR A
REVIEW**

The following letter is not intended to be a standardised letter. It is to be used as a guide only and will need to be adapted according to individual requirements and circumstances.

To [title of those charged with governance:⁴]

Scope

You have requested that we review the Accounts Receivable Aged Trial Balance [name of document] of [name of entity], which comprises [insert relevant information] as at 31 December 20XX[or for the period ended][and other explanatory notes (if applicable)]. We are pleased to confirm our acceptance and our understanding of the terms and objectives of our engagement by means of this letter.

Our review will be conducted in accordance with Standard on Review Engagements ASRE 2405 *Review of Historical Financial Information, Other than a Financial Report*, issued by the Auditing and Assurance Standards Board, with the objective of providing us with a basis for reporting whether anything has come to our attention that causes us to believe that the Accounts Receivable Aged Trial Balance [name of document] of [name of entity] is not prepared, in all material respects, in accordance with Accounting Standard AASB 139 *Financial Instruments: Recognition and Measurement* and the accompanying explanatory notes [the applicable criteria]. Such a review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures and does not, ordinarily, require corroboration of the information obtained. The scope of a review is substantially less than the scope of an audit conducted in accordance with Auditing Standards whose objective is the expression of an opinion regarding a financial report and accordingly, we shall express no such opinion. ASRE 2405 requires us to also comply with ethical requirements.

We expect to report on the Accounts Receivable Aged Trial Balance [name of document] as follows, however, our report may be modified:

[Include text of sample review report - see Appendix 5]

⁴ Insert the appropriate term, such as “Directors’ or ‘Board of Management’”.

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Responsibility for the Accounts Receivable Aged Trial Balance [name of document] is that of [those charged with governance.⁵] This includes establishing and maintaining internal control relevant to the preparation and fair presentation of the Accounts Receivable Aged Trial Balance [name of document] that is free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances. As part of our review, we shall request written representations from management concerning assertions made in connection with the review. We shall also request that where any document containing the Accounts Receivable Aged Trial Balance [name of document] indicates that the Accounts Receivable Aged Trial Balance [name of document] has been reviewed, our report will also be included in the document.

A review of the Accounts Receivable Aged Trial Balance [name of document] does not provide assurance that we shall become aware of all significant matters that might be identified in an audit. Further, our engagement cannot be relied upon to disclose whether fraud or errors, or illegal acts exist. However, we shall inform you of any material matters that come to our attention.

Fees

[Insert additional information here regarding fee arrangements and billings, as appropriate.]

We look forward to full co-operation with your staff and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our review.

[This letter will be effective for future years unless it is terminated, amended or superseded.]⁶

⁵ Insert the appropriate term, such as “Directors or Board of Management”.

⁶ Use if applicable.

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Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our review of the Accounts Receivable Aged Trial Balance [name of document] .

Yours faithfully,

(signed)

.....

Name and Title

Date

Acknowledged on behalf of [entity] by

(signed)

.....

Name and Title

Date

APPENDIX 2

**EXAMPLE OF A MANAGEMENT REPRESENTATION
LETTER FOR A REVIEW**

The following letter is not intended to be a standardised letter. It is to be used as a guide only and will need to be adapted according to individual requirements and circumstances.

Representations by management will vary from one entity to another and from one period to the next. Representation letters are ordinarily useful where evidence, other than that obtained by enquiry, may not be reasonably expected to be available or when management have made oral representations which the assurance practitioner wishes to confirm in writing.

[Entity Letterhead]

[Addressee – Assurance Practitioner]

[Date]

This representation letter is provided in connection with your review of the Accounts Receivable Aged Trial Balance [name of document] of [name of entity] as at 31 December 20XX [period/date], for the purpose of you expressing a conclusion as to whether anything has come to your attention that causes you to believe that the Accounts Receivable Aged Trial Balance is not prepared, in all material respect, in accordance with Accounting Standard AASB 139 *Financial Instruments: Recognition and Measurement* (“AASB 139”) and the accompanying explanatory notes [the applicable criteria].

We acknowledge our responsibility for ensuring that the Accounts Receivable Aged Trial Balance as at 31 December 20XX] is prepared and presented in all material respects in accordance with AASB 139 and the accompanying explanatory notes and confirm that the Accounts Receivable Aged Trial Balance is free of material misstatements including omissions.

We confirm, to the best of our knowledge and belief, the following representations made to you during your review.

[Include representations required by this ASRE (paragraph 40) and those relevant to the entity. Such representations may include the following examples.]

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1. We have made available to you all financial records and related data, other information, explanations and assistance necessary for the conduct of the review.
2. We have disclosed to you the results of our assessment of the risk that the Accounts Receivable Aged Trial Balance as at 31 December 20XX may be materially misstated as result of fraud.
3. There:
 - (a) has been no fraud or suspected fraud, error or non-compliance with laws and regulations involving management or employees who have a significant role in the internal control structure;
 - (b) has been no fraud or suspected fraud, error or non-compliance with laws and regulations that could have a material effect on the Accounts Receivable Aged Trial; and
 - (c) have been no communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting practices that could have a material effect on the Accounts Receivable Aged Trial Balance.
4. We are responsible for, and have established and maintained, an adequate internal control structure to prevent and detect fraud and error and to facilitate the preparation of the Accounts Receivable Aged Trial Balance, and adequate financial records have been maintained. There are no material transactions that have not been recorded properly in the accounting records underlying the Accounts Receivable Aged Trial Balance.
5. We have no plans or intentions that may affect materially the carrying values, or classification, of accounts receivable balances included in the Accounts Receivable Aged Trial Balance.
6. We have considered the requirements of Accounting Standard AASB 139 *Financial Instruments: Recognition and Measurement*, when assessing the impairment of accounts receivable balances recorded in the Aged Trial Balance at 31 December 20XX and in ensuring that they are not stated in excess of their recoverable amount.
7. We believe the effects of uncorrected misstatements summarised in the accompanying schedule are immaterial, both individually and in the aggregate, to the Accounts Receivable Aged Trial Balance.

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8. The entity has satisfactory title to all balances recorded in the Accounts Receivable Aged Trial Balance, and there are no liens or encumbrances over such balances that have not been disclosed nor has any asset been pledged as collateral.
9. The entity has complied with all aspects of contractual agreements that would have a material effect on the Accounts Receivable Aged Trial Balance in the event of non-compliance.
10. No events have occurred subsequent to the date of the Accounts Receivable Aged Trial Balance through to the date of this letter that would require adjustment to, or disclosure in, the Accounts Receivable Aged Trial Balance as at 31 December 20XX.

We understand that your examination was made in accordance with Standard on Review Engagements ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*, and was, therefore, designed primarily for the purpose of expressing a conclusion on the Accounts Receivable Aged Trial Balance as at 31 December 20XX of [the entity], and that your procedures were limited to those which you considered necessary for that purpose.

Yours faithfully

[Name of signing officer and title]

APPENDIX 3

ANALYTICAL PROCEDURES THE ASSURANCE PRACTITIONER MAY CONSIDER WHEN PERFORMING A REVIEW OF HISTORICAL FINANCIAL INFORMATION

The analytical procedures carried out in a review are determined by the assurance practitioner exercising professional judgement. The procedures listed below are for illustrative purposes only. It is not intended that all the procedures suggested apply to every review engagement nor is the Appendix intended to serve as a program or checklist in the conduct of a review.

Examples of analytical procedures the assurance practitioner may consider when performing a review of financial information include the following:

- Comparing the financial information with the financial information of the immediately preceding period, with the financial information of the corresponding period of the preceding financial year, with the financial information that was expected by management for the current period, and with the most recent audited annual financial report.
- Comparing the current financial information with anticipated results, such as budgets or forecasts. For example, comparing tax balances and the relationship between the provision for income taxes to pre-tax income in the current financial information with corresponding information in:
 - ◆ budgets, using expected rates; and
 - ◆ financial information for prior periods.
- Comparing the current financial information with relevant non-financial information.
- Comparing the recorded amounts, or ratios developed from recorded amounts, to expectations developed by the assurance practitioner. The assurance practitioner develops such expectations by identifying and applying relationships that reasonably are expected to exist based on the assurance practitioner's understanding of the entity and of the industry in which the entity operates.
- Comparing ratios and indicators for the current period with those of entities in the same industry.

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- Comparing relationships among elements in the current financial information with corresponding relationships in the financial information of prior periods, for example, expense by type as a percentage of revenue, assets by type as a percentage of total assets, and percentage of change in revenue to percentage of change in receivables.
- Comparing disaggregated data. The following are examples of how data may be disaggregated:
 - ◆ by period, for example, revenue or expense items disaggregated into quarterly, monthly, or weekly amounts;
 - ◆ by product line or source of revenue;
 - ◆ by location, for example by component;
 - ◆ by attributes of the transaction, for example, revenue generated by designers, architects, or craftsmen; and
 - ◆ by several attributes of the transaction, for example, revenue by product and month.

APPENDIX 4

ILLUSTRATIVE DETAILED PROCEDURES THAT THE ASSURANCE PRACTITIONER MAY CONSIDER WHEN PERFORMING A REVIEW

1. The enquiry and analytical procedures carried out in a review engagement are determined by the assurance practitioner exercising professional judgement. The procedures listed below are for illustrative purposes only and are considered by the assurance practitioner who is presumed to have obtained an understanding of the entity and its environment, including internal control relative to the preparation of the financial information. It is not intended that all the procedures suggested apply to every review engagement. This Appendix is not intended to serve as a program or checklist in the conduct of a review.

General

2. Discuss terms and scope of the engagement with the engagement team.
3. Enquire whether all financial information is recorded:
 - (a) completely;
 - (b) promptly; and
 - (c) after the necessary authorisation.
4. Enquire about the accounting policies and consider whether:
 - (a) they comply with the applicable criteria;
 - (b) they have been applied appropriately; and
 - (c) they have been applied consistently and, if not, consider whether disclosure has been made of any changes in the accounting policies.
5. Enquire about the policies and procedures to assess impairment of assets and any consequential estimation of recoverable amount.
6. Enquire about the policies and procedures to determine the fair value of assets and liabilities.

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7. Enquire if actions taken at meetings of shareholders or those charged with governance which affect the financial information have been appropriately reflected therein.
8. Enquire about plans to dispose of major assets or business/geographical segments.
9. Obtain the financial information and discuss it with management and those charged with governance.
10. Consider the adequacy of disclosures in the financial information and their suitability as to statement and presentation.
11. Compare the outcomes shown in the current period financial information with those shown in financial information for comparable prior periods and, if available, with budgets and forecasts.
12. Obtain explanations from management for any unusual fluctuations or inconsistencies in the financial information.

Cash

13. Obtain the bank reconciliations. Enquire about any old or unusual reconciling items with client personnel.
14. Enquire about transfers between cash accounts for the period immediately before and after the review date.
15. Enquire whether there are any restrictions on cash accounts.

Receivables

16. Enquire about the accounting policies for initially recording trade receivables and determine whether any allowances for doubtful debts are given on such transactions.
17. Obtain a schedule of receivables and determine whether the total agrees with the trial balance.
18. Obtain and consider explanations of significant variations in account balances from previous periods or from those anticipated.
19. Obtain an aged analysis of the trade receivables. Enquire about the reason for unusually large accounts, credit balances on accounts or

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- any other unusual balances and enquire about the collectibility of aged receivables.
20. Discuss with management the classification of receivables, including non-current balances, net credit balances and amounts due from shareholders, those charged with governance, and other related parties .
21. Enquire about the methods for identifying and calculating the impairment of assets and consider them for reasonableness.
22. Enquire whether receivables have been pledged, factored or discounted.
23. Enquire about procedures applied to ensure that a proper cut-off of revenue transactions and sales returns has been achieved.
24. Enquire whether accounts represent goods shipped on consignment and, if so, whether adjustments have been made to reverse these transactions and include the goods in inventory.
25. Enquire whether any large credits relating to recorded income have been issued after the reporting period and whether provision has been made for such amounts.

Inventories

26. Obtain the inventory list and determine whether:
- (a) the total agrees with the balance in the trial balance; and
 - (b) the list is based on a physical count of inventory.
27. Enquire about the method for counting inventory.
28. Where a physical count was not carried out on the date of the reporting period, enquire whether:
- (a) a perpetual inventory system is used and whether periodic comparisons are made with actual quantities on hand; and
 - (b) an integrated cost system is used and whether it has produced reliable information in the past.
29. Discuss adjustments made resulting from the last physical inventory count.

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30. Enquire about procedures applied to control cut-off and any inventory movements at period end.
31. Enquire about the basis used in valuing each inventory classification and, in particular, regarding the elimination of intra-group income. Enquire whether inventory is valued at the lower of cost and net realisable value (or lower of cost and current replacement cost for not-for-profit organisations).
32. Consider the consistency with which inventory valuation methods have been applied, including factors such as material, labour and overhead.
33. Compare amounts of major inventory categories with those of prior periods and with those anticipated for the current period. Enquire about major fluctuations and differences.
34. Compare inventory turnover with that in previous periods.
35. Enquire about the method used for identifying slow moving and obsolete inventory and whether such inventory has been accounted for at the lower of cost and net realisable value.
36. Enquire whether any inventory has been consigned to the entity and, if so, whether adjustments have been made to exclude such goods from inventory.
37. Enquire whether any inventory is pledged, stored at other locations or on consignment to others and consider whether such transactions have been accounted for appropriately.

Investments (Including Investments in Associates and Financial Instruments)

38. Obtain a schedule of investments at the date of the reporting period and determine whether it agrees with the trial balance.
39. Enquire about the accounting policies applied to investments.
40. Enquire from management about the carrying amounts of investments. Consider whether there are any realisation or other impairment problems.
41. Consider whether there has been proper accounting for gains and losses and investment income.

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42. Enquire about the classification of long-term and short-term investments.

Property, Plant and Equipment and Depreciation

43. Obtain a schedule of the property, plant and equipment indicating the cost and accumulated depreciation and determine whether it agrees with the trial balance.
44. Enquire about the accounting policy applied regarding residual values, provisions to allocate the cost of property, plant and equipment over their estimated useful lives using the expected pattern of consumption of the future economic benefits and distinguishing between capital and maintenance items. Consider whether the property, plant and equipment have suffered an impairment in value.
45. Discuss with management significant additions and disposals to property, plant and equipment accounts and accounting for gains and losses on disposals or de-recognition. Enquire whether all such transactions have been accounted for.
46. Enquire about the consistency with which the depreciation method and rates have been applied and compare depreciation accumulations with prior years.
47. Enquire whether there are any restrictions on the property, plant and equipment.
48. Discuss whether lease agreements have been properly reflected in the financial information in conformity with current accounting pronouncements.

Prepaid Expenses, Intangibles and Other Assets

49. Obtain schedules identifying the nature of these accounts and discuss with management the recoverability thereof.
50. Enquire about the basis for recording these accounts and the amortisation methods used.
51. Compare balances of related expense accounts with those of prior periods and discuss significant variations with management.
52. Discuss the classification basis between current and non-current accounts with management.

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Loans Payable

53. Obtain from management a schedule of loans payable and determine whether the total agrees with the trial balance.
54. Enquire whether there are any loans where management has not complied with the provisions of the loan agreement and, if so, enquire as to management's actions and whether appropriate adjustments have been made in the financial information.
55. Consider the reasonableness of interest expense in relation to loan balances.
56. Enquire whether loans payable are secured.
57. Enquire whether loans payable have been classified between non-current and current appropriately.

Trade Payables

58. Enquire about the accounting policies for initially recording trade payables and whether the entity is entitled to any allowances given on such transactions.
59. Obtain and consider explanations of significant variations in account balances from previous periods or from those anticipated.
60. Obtain a schedule of trade payables and determine whether the total agrees with the trial balance.
61. Enquire whether balances are reconciled with the creditors' statements and compare with prior period balances. Compare turnover with prior periods.
62. Consider whether there could be material unrecorded liabilities.
63. Enquire whether payables to shareholders, those charged with governance and other related parties are disclosed separately.

Other Liabilities and Contingent Liabilities

64. Obtain a schedule of the other liabilities and determine whether the total agrees with the trial balance.
65. Compare major balances of related expense accounts with similar accounts for prior periods.

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66. Enquire about approvals for such other liabilities, terms of payment, compliance with terms, collateral and classification.
67. Enquire about the method for determining other liabilities.
68. Enquire as to the nature of amounts disclosed in contingent liabilities and commitments.
69. Enquire whether any relevant actual or contingent liabilities exist which have not been recognised/disclosed in the financial information. If so, discuss with management and/or those charged with governance whether provisions need to be recognised/disclosed in the financial information.

Income and Other Taxes

70. Enquire from management if there were any events, including disputes with taxation authorities, which could have a significant effect on the taxes payable by the entity.
71. Consider the tax expense in relation to the entity's income for the period.
72. Enquire from management as to the adequacy of the recognised deferred tax assets and/or liabilities and amounts in respect of prior periods.

Subsequent Events

73. Obtain from management the latest financial report and compare it with the financial information being reviewed or with that for comparable periods from the preceding year.
74. Enquire about events after the reporting date that would have a material effect on the financial information under review and, in particular, enquire whether:
 - (a) any substantial commitments or uncertainties have arisen subsequent to the reporting date;
 - (b) any significant changes in the share capital, long-term debt or working capital have occurred up to the date of enquiry; and
 - (c) any unusual adjustments have been made during the period between the reporting date and the date of enquiry.

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Consider the need for adjustments or disclosure in the financial information.

75. Obtain and read the minutes of meetings of shareholders, those charged with governance and appropriate committees subsequent to the review date.

Litigation

76. Enquire of management whether the entity is the subject of any legal actions - threatened, pending or in process. Consider the effect on the financial information.

Equity

77. Obtain and consider a schedule of the transactions in the equity accounts, including equity contributions, re-acquisition of the entity's own equity instruments and dividends.
78. Enquire whether there are any restrictions on retained earnings or other equity accounts.

Operations

79. Compare results with those of prior periods and those expected for the current period. Discuss significant movements/variations with management.
80. Discuss whether the recognition of major revenue and expense items have taken place in the appropriate periods.
81. Enquire about the policies and procedures related to accrued revenue and/or expenses.
82. Consider and discuss with management the relationship between related items in the revenue accounts and assess the reasonableness thereof in the context of similar relationships for prior periods and other available information.

APPENDIX 5

EXAMPLE REVIEW REPORTS

The following example reports are to be used as a guide only and will need to be adapted according to individual requirements and circumstances.

Example 1: Example of an unmodified assurance practitioner’s review report on a schedule of accounts receivable.

INDEPENDENT ASSURANCE PRACTITIONER’S [AUDITOR’S] REVIEW REPORT

To [appropriate addressee]

Report on the Schedule of Accounts Receivable

We have reviewed the attached Schedule of Accounts Receivable of [name of entity] as at 30 June 20X1 (the Schedule).

The Schedule has been prepared for the [appropriate party⁷] to assess the value of the [type of entity’s] receivables portfolio.

Management’s [Appropriate Title] Responsibility for the Schedule

Management [Appropriate Title] is responsible for the preparation of the Schedule and has determined that the accounting policies [applicable criteria] used are appropriate to the needs of the [appropriate party]. This responsibility includes establishing and maintaining internal control relevant to the preparation of the Schedule that is free from material misstatement, whether due to fraud or error.

Assurance Practitioner’s [Auditor’s] Responsibility

Our responsibility is to express a conclusion on the Schedule based on our review. We have conducted our review in accordance with Standard on Review Engagements ASRE 2405 *Review of Historical Financial Information Other than a Financial Report* in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the Schedule is not prepared, in all material respects, in accordance with the accounting policies [applicable criteria] used. No opinion is expressed as to whether the accounting policies [applicable criteria] used are appropriate to the needs of the [appropriate party].

⁷ Insert the appropriate party such as “Directors” or “Board of Management”.

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ASRE 2405 requires us to comply with the requirements of the applicable code of professional conduct of a professional accounting body.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in 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.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Schedule of Accounts Receivable of [name of entity] as at 30 June 20X1 is not prepared, in all material respects, in accordance with the accounting policies [applicable criteria] used.

[Assurance Practitioner's signature⁸]

[Date of the Assurance Practitioner's review report]

[Assurance Practitioner's address]

⁸ The assurance practitioner's review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the assurance practitioner as appropriate.

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Example 2: Example of an assurance practitioner's review report on a schedule of accounts receivable with a qualified conclusion for a limitation on scope not imposed by management.

INDEPENDENT ASSURANCE PRACTITIONER'S [AUDITOR'S] REVIEW REPORT

To [appropriate addressee]

Report on the Schedule of Accounts Receivable

We have reviewed the attached Schedule of Accounts Receivable of [name of entity] as at 30 June 20X1 (the Schedule).

The Schedule has been prepared for the [appropriate party⁹] to assess the value of the [type of entity's] receivables portfolio.

Management's [Appropriate Title] Responsibility for the Schedule

Management [Appropriate Title] is responsible for the preparation of the Schedule and has determined that the accounting policies [applicable criteria] used are appropriate to the needs of the [appropriate party]. This responsibility includes establishing and maintaining internal control relevant to the preparation of the Schedule that is free from material misstatement, whether due to fraud or error.

Assurance Practitioner's [Auditor's] Responsibility

Our responsibility is to express a conclusion on the Schedule based on our review. We have conducted our review in accordance with Standard on Review Engagements ASRE 2405 *Review of Historical Financial Information Other than a Financial Report* in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the Schedule is not prepared, in all material respects, in accordance with the accounting policies [applicable criteria] used. No opinion is expressed as to whether the accounting policies [applicable criteria] used are appropriate to the needs of the [appropriate party]. ASRE 2405 requires us to comply with the requirements of the applicable code of professional conduct of a professional accounting body.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not

⁹ Insert the appropriate party such as "Directors" or "Board of Management".

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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.

Basis for Qualified Conclusion

The Schedule includes four separate balances receivable from individual debtors in the Republic of XXX, a country suffering from civil unrest. These balances amount in total to AUS\$ XXX and represent 15% of the total receivable balances listed in the Schedule. We have been unable to obtain the evidence we consider necessary to review and ascertain the collectibility of these four balances. Had we been able to obtain the information we require, matters might have come to our attention indicating that adjustments might be necessary to the Schedule.

Qualified Conclusion

Except for the adjustments to the Schedule that we might have become aware of had it not been for the situation described in the preceding paragraph, based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Schedule of Accounts Receivable of [name of entity] as at 30 June 20X1 is not prepared, in all material respects, in accordance with the accounting policies [applicable criteria] used.

[Assurance Practitioner's signature¹⁰]

[Date of the Assurance Practitioner's review report]

[Assurance Practitioner's address]

¹⁰ The assurance practitioner's review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the assurance practitioner as appropriate