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AUASB Bulletin

What not-for-profit entities need to know about the differences between an audit and review

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About the AUASB

The Auditing and Assurance Standards Board (AUASB) is an independent, non-corporate Commonwealth entity of the Australian Government, responsible for developing, issuing and maintaining auditing and assurance standards.

Sound public interest-oriented auditing and assurance standards are necessary to reinforce the credibility of the auditing and assurance processes for those who use financial and other information. The AUASB standards are legally enforceable for audits or reviews of financial reports required under the *Corporations Act 2001*. For more information about the AUASB see the AUASB Website.

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Introduction and purpose

The Auditing and Assurance Standards Board (AUASB) has prepared this AUASB Bulletin to assist Not-for-profit entities (NFPs)¹ to consider whether an audit or review engagement may be the most appropriate to their needs based on current regulation, governance, and the needs of stakeholders.

With the recent changes to the Australian Charities and Not-for-profits Commission (ACNC) thresholds for financial reporting and assurance requirements for registered charities and NFP entities, those that have moved from being large to medium under the thresholds will now have the option to have a review rather than an audit. It is important for charities and other NFP entities, as well as assurance practitioners of all NFPs, to consider whether an audit or a review best meets the needs of the entity, users and any relevant regulatory entities.

This AUASB Bulletin outlines the differences between an audit and review, why an NFP may choose one over the other, what to expect from each engagement and how and what the assurance practitioner will communicate through an audit or review report.

Understanding the regulatory and legal framework of the not-for-profit entity

NFPs need to consider both the regulatory framework and the legal structure of their entity when considering the assurance requirements for an audit or review. This will assist the NFP in determining the reporting and audit or review requirements that apply at both a Commonwealth and State level. This understanding also needs to be overlaid with the legal structure of the NFP, including the governing documents, which may give rise to specific compliance obligations, including further reporting obligations.

NFPs registered with the ACNC are required to comply with financial reporting and audit/assurance obligations under the *Australian Charities and Not-for-profits Commission Act 2012* (the ACNC Act). In addition, there may be other State/Territory/Commonwealth based legislation that NFPs may need to comply with, depending on the structure of the entity or whether a streamlined reporting arrangement exists with the state/territory based regulator and the ACNC (including, for example, an incorporated association, indigenous corporation or a company limited by guarantee).

Refer to the [AUASB Not-for-profit page](#) for further resources to assist.

For a NFP that is a company limited by guarantee, or an entity reporting under the ACNC Act, or other applicable legislation or regulation, the auditor may be able to conduct a review engagement instead of an audit. For further details, refer to [ASRE 2415 Review of a Financial Report: Company Limited by Guarantee or an Entity Reporting under the ACNC Act or Other Applicable Legislation or Regulation](#) or [ASRE 2400 Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity](#).

¹ NFP entities include registered charities with the ACNC. There are many NFP entities that are not eligible to be a charity. This bulletin uses the term NFP to include all NFP entities. Where the term charity is used it is specific to Australian Charities and Not-for-profits Commission (ACNC) registered charities.

Differences between an audit and review

A review engagement assesses what the entity has done to prepare the financial statements of the business' operations and provides a report on whether anything came to the reviewer's attention suggesting that the financial report is materially misstated. You can take limited assurance from a review which is less than the assurance that can be taken from an audit.

An audit engagement allows an assurance practitioner to provide an opinion on the financial statements that an entity prepares. To provide an audit opinion, the assurance practitioner has complied with all the Australian Auditing Standards (ASAs) and conducted more detailed audit procedures than required by a review. You can take a reasonable / high level of assurance but not absolute assurance from an audit.

A key difference between an audit or review are the types of procedures and the extent of work the assurance practitioner may undertake to ensure sufficient appropriate evidence is obtained. Review procedures are primarily based on inquiry and analytical review. Audit procedures normally involve detailed tests of accounting records using techniques such as inspection, observation, confirmation, re-calculation and re-performance, in addition to inquiry and analytical review.

Considerations for a NFP when choosing an audit or review

As part of the overall governance and regulation of a NFP, the directors or trustees and management will need to determine if the financial statements of the entity are required to be either reviewed or audited.

ACNC registered charities are classified as small, medium or large based on their annual revenue for the reporting period. Medium charities are permitted to provide a review or audit report with their annual financial statements, while large charities must provide an audit report.

For reporting periods starting from the 2022 ACNC Annual Information Statement (AIS) the [charity sizes](#) are:

- Small charities are those with annual revenue under \$500,000.
- Medium charities are those with annual revenue of \$500,000 or more, but under \$3 million.
- Large charities are those with annual revenue of \$3 million or more.

For earlier reporting periods please refer to the ACNC website for further information.

For other NFP entities not registered as a charity with the ACNC, the requirements to undertake an audit or review are most likely to be driven by a number of factors including:

- annual revenue;
- funding obligations e.g. grant recipient;
- constitution; and
- legal structure of the entity e.g. company limited by guarantee or incorporated association.

For those NFP entities that can choose between a review and an audit, key factors for consideration in the decision are likely to include:

- size and complexity of the entity;
- internal resources available;
- expected cost and time; and
- funding arrangements.

Review or Audit	Review	Audit
When is it useful?	When needing an independent conclusion over a full set of historical financial statements but not needing the cost and extent of an audit.	<p>When needing an independent opinion over a full set of historical financial statements. An audit may provide additional tangible benefits to your NFP or charity's management team.</p> <p>These could include:</p> <ul style="list-style-type: none"> • Independent assessment of material risks to the financial statements; • Access to broad independent expertise and industry best practice; and • Ongoing recommendations and evaluation of internal controls relevant to the audit
What is it?	It involves assessing how the entity has prepared its financial statements and provides a report giving a conclusion on whether anything has come to the assurance practitioner's attention that the financial statements have not been prepared in accordance with the accounting standards (or other applicable criteria). It provides "limited" assurance which is a lower level of assurance than that provided by an audit.	It involves assessing how the entity has prepared its financial statements and provides a report giving an opinion on whether the financial statements have been prepared in accordance with the accounting standards (or other applicable criteria). It provides "reasonable" assurance which is a high level of assurance, but not absolute.

Review or Audit	Review	Audit
<p>What can you expect?</p>	<p>The nature, timing and extent of procedures for gathering sufficient appropriate evidence in a review engagement are deliberately more limited than an audit engagement. A review is based on:</p> <ul style="list-style-type: none"> • an evaluation of financial information through analysis of plausible relationships among both financial and non-financial data; and • reading and assessing material supporting the matters reported and talking to and asking questions of management and staff. <p>It generally does not involve external confirmation with third parties or extensive testing of records or controls.</p> <p>Review Standards require enquiries of management as to the existence of any actual, suspected or alleged fraud or illegal acts that may have a direct effect on the determination of material amounts and disclosures in the financial statements.</p>	<p>Assurance practitioners undertake a range of procedures to get a full picture of the entity and how those activities are reflected in the financial accounts. This will involve the assurance practitioner:</p> <ul style="list-style-type: none"> • conducting risk assessment procedures across the entity and considering risks of material fraud as part of this process. • spending time with management and staff. • seeking confirmation and corroboration with third parties. • checking a sample of transactions through invoices, receipts and other documentation. • observing and testing through walk throughs the operation of the controls. • challenging any estimates or assumptions made by management. <p>Auditing standards require the assurance practitioner to explicitly discuss the risk of a material fraud with management and others as part of the audit.</p>

Review or Audit	Review	Audit
<p>What are the key outputs?</p>	<p>A review report which is worded in accordance with the requirements of the auditing standards (ASRE 2415). It explains the reviewer's assessment of what and how you have reported and gives their independent conclusion on the financial statements.</p> <p>The reviewer must form a conclusion whether:</p> <ul style="list-style-type: none"> • on the basis of the review, anything has come to the reviewer's attention that causes the reviewer to believe that the financial report does not satisfy the relevant regulation; • the reviewer has been given all information, explanation and assistance necessary for the conduct of the review; • the entity has kept financial records sufficient to enable a financial report to be prepared and reviewed; and • the entity has kept other records as required by the relevant regulation. 	<p>An audit report which is worded in accordance with the requirements of the auditing standards (ASAs). It explains the auditor's assessment of what and how you have reported and gives their independent opinion on the financial statements.</p> <p>The assurance practitioner must form an opinion whether:</p> <ul style="list-style-type: none"> • the financial report satisfies the requirements of the relevant regulation and is not materially misstated; • the assurance practitioner has been given all information, explanation and assistance necessary for the conduct of the audit; • the entity has kept financial records sufficient to enable a financial report to be prepared and audited; and • the entity has kept other records as required by the relevant regulation.

Review or Audit	Review	Audit
Who can undertake these assurance engagements?	<p>Reviews of certain regulated entities need to be undertaken by registered, licensed or qualified auditors. Outside of these regulations, a review should be undertaken by a suitably qualified accountant following review standards. Review engagement standards apply equally to regulated and non-regulated entities. Members of a Professional Accounting Body are required to follow the professional Code of Ethics² which requires them to be independent to carry out a review engagement.</p> <p>Joint Accounting Bodies Competency requirements for review engagements in Australia³</p>	<p>Audits of certain regulated entities need to be undertaken by registered, licensed or qualified auditors. Outside of these areas, an audit should be undertaken by a suitably qualified accountant following auditing standards. Auditing standards apply equally to regulated and non-regulated entities. Chartered Accountants are required to follow the professional Code of Ethics which requires them to be independent to carry out an audit engagement.</p>

Where to find further information

Refer to our [AUASB Not-for-profit page](#) on the AUASB website which includes example controls and audit procedures, example auditor's reports and other reference materials produced by other standard setters, professional bodies and academic research.

[ACNC Website](#): Governance for Good: A Guide for Responsible people and ACNC Governance standards.

[Governance Institute website](#): Good Governance Guide — Conflicts of interest in not-for-profit organisations.

² Refer APES 110 Code of Ethics for Professional Accountants (including Independence Standards) issued by the Accounting Professional and Ethical Standards Board.

³ Joint Accounting Bodies includes Chartered Accountants Australia New Zealand, CPA Australia and the Institute of Public Accountants.