



**International Federation of Accountants**

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## Agenda Item

# H

**Committee:** IAASB Consultative Advisory Group

**Meeting Location:** Dubai

**Meeting Date:** March 9 – 10, 2009

### **Project Proposal – Revision of ISRE 2400 and ISRS 4410**

#### **A. Objective of Agenda Item**

1. To review key matters identified in the Project Proposal – Revision of International Standard on Review Engagements (ISRE) 2400, “Engagements to Review Financial Statements,” and International Standard on Related Services (ISRS) 4410, “Engagements to Compile Financial Statements.” The IAASB intends to discuss the project proposal set forth in the Appendix at its March 2009 meeting.

#### **B. Matters for CAG Consideration**

2. Representatives will recall that the proposal to review the review and compilation standards was a matter discussed in developing the IAASB’s *Strategy and Work Program, 2009-2011*, which was issued in July 2008. The Strategy and Work Program elaborates on the IAASB’s rationale in this regard, and explains the intention behind the plan to revise ISRE 2400 and ISRS 4410:

In addition to practical implementation challenges, the prospect of a wider requirement for audits to be conducted in accordance with ISAs has raised concerns in some quarters about whether an audit is the right service for all SMEs. It is the view of the IAASB that “an audit is an audit,” and that ISAs are the standards to be applied to all audits. As such, the IAASB does not support any possibility that the audit of SMEs might be carried out to limited auditing standards.

However, in some countries, regulators have introduced exemptions from audit for entities that would otherwise be required to have an audit (e.g., based on the type of entity, its size, or other public interest consideration). Although there may be no requirement for these entities to have any form of third party assurance report on their financial statements, they often request their professional accountants to conduct a review or compilation engagement. Some other countries are currently considering an assurance service for SMEs that would be an acceptable alternative to an audit (“alternative assurance service”). The strategy review consultations did not suggest that it will be necessary to develop a completely new assurance service for this purpose. However, the IAASB plans to revise International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Financial Statements* and International Standard on Related Services (ISRS) 4410, *Engagements to Compile Financial Statements*. The IAASB’s current thinking is that such revisions, if

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undertaken with a sufficiently broad remit, should provide standards for services that provide acceptable alternatives to an audit.

3. The objective of this project, therefore, is to revise ISRE 2400 and ISRS 4410 so that they provide standards for services that provide acceptable alternatives to the audit. A prerequisite to achieving this objective will be to obtain a thorough understanding of regulatory and market demands and practice around the world regarding alternative assurance services so as to inform the project considerations relating to the nature and form of the expected outputs, and the target audience.
4. The Representatives are invited to share with the CAG the views of their respective organizations as to the need for, and current use of, alternative assurance services, as well as on any other matters set forth in the attached project proposal.

**PROJECT PROPOSAL**  
**Revision of ISRE 2400 and ISRS 4410**

**I. Subject**

1. Revision of International Standard on Review Engagements (ISRE) 2400, “Engagements to Review Financial Statements,” and International Standard on Related Services (ISRS) 4410, “Engagements to Compile Financial Statements.”

**II. Background and Relevant Developments**

**A. Background**

**A.1 EXISTING IAASB STANDARDS**

2. The extant ISRE 2400 and ISRS 4410 were originally issued in October 1990, and then codified and reissued in March 1994.

*Scope of ISRE 2400 and Relationship with ISRE 2410, the Assurance Framework, the IFAC Code of Ethics and ISQC 1*

3. ISRE 2400 deals with a practitioner’s responsibilities in undertaking an engagement to review financial statements when the practitioner is not the entity’s auditor. The introduction to the standard states that while the ISRE is directed towards the review of financial statements, it is to be applied, adapted as necessary in the circumstances, to engagements to review other historical financial information. The standard further states that guidance in the ISAs may be useful to the practitioner in applying the ISRE.
4. A related standard that the IAASB issued in July 2005, ISRE 2410,<sup>1</sup> deals with a practitioner’s responsibilities in undertaking an engagement to review interim financial information of an entity when the practitioner is the entity’s auditor. ISRE 2410 presumes that through performing the audit of the annual financial statements, the auditor will have obtained an understanding of the entity and its environment, including its internal control. It explains that when the auditor is engaged to review the interim financial information, the auditor updates this understanding through inquiries made during the review. The understanding assists the auditor in focusing the inquiries to be made and the analytical and other review procedures to be applied.
5. ISRE 2410 also indicates that a practitioner who is engaged to perform a review of interim financial information and who is *not* the entity’s auditor performs the review in accordance with ISRE 2400. This is because the practitioner needs to carry out different inquiries and procedures to meet the objective of the review, as the practitioner does not ordinarily have

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<sup>1</sup> ISRE 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.”

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the same understanding of the entity and its environment, including its internal control, as the entity's auditor. While ISRE 2410 is directed towards a review of interim financial information by an entity's auditor, it is to be applied, adapted as necessary in the circumstances, when the auditor undertakes an engagement to review other historical financial information of the entity.

6. Both ISRE 2400 and 2410 come under the umbrella of the IAASB's International Framework for Assurance Engagements ("Assurance Framework"), and are limited assurance engagements as described in the Assurance Framework.<sup>2</sup>
7. The Assurance Framework states that practitioners who perform assurance engagements are governed by:
  - a) The IFAC *Code of Ethics for Professional Accountants* (the IFAC Code), which establishes fundamental ethical principles for professional accountants; and
  - b) International Standards on Quality Control (ISQCs) (currently only ISQC 1<sup>3</sup>), which establish standards and provide guidance on a firm's system of quality control.

#### *Scope of ISRS 4410 and Relationship with the IFAC Code of Ethics and ISQCs*

8. ISRS 4410 deals with a practitioner's responsibilities when undertaking an engagement to compile an entity's financial information. The introductory part of the standard states that while the ISRS is directed towards the compilation of financial information, it is to be applied to the extent practicable to engagements to compile non-financial information, provided the practitioner has adequate knowledge of the subject matter in question. The standard also indicates that engagements to provide limited assistance to a client in the preparation of financial statements (for example, on the selection of an appropriate accounting policy), do not constitute an engagement to compile financial information.
9. ISRS 4410 is not included within the scope of the Assurance Framework. The ISRS makes clear that the procedures employed in a compilation engagement are not designed, and do not enable the practitioner, to express any assurance on the financial information. It, however, explains that users of the compiled financial information derive some benefit as a result of the practitioner's involvement because the service has been performed with professional competence and due care.

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<sup>2</sup> The Assurance Framework, paragraph 11, describes a limited assurance engagement as follows:

"The objective of a limited assurance engagement is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for a negative form of expression of the practitioner's conclusion."

<sup>3</sup> Extant ISQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements." (Redrafted as part of the IAASB's Clarity project and reissued in December 2008 as ISQC 1 (Redrafted), "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements.")

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10. While the practitioner is not required to be independent in a compilation engagement, ISRS 4410 nevertheless requires the practitioner to comply with the ethical principles embodied in the IFAC code, for example, acting with integrity and objectivity.

Firms that perform ISRS 4410 engagements are required to comply with ISQC 1.

#### A.2 THE IAASB'S STRATEGY REVIEW CONSULTATIONS

11. On the basis of its 2007 strategy review consultations, the IAASB concluded that it should focus part of its medium term strategy on the development of standards to address the needs of small- and medium-sized entities (SMEs) and small and medium practices (SMPs). The final *Strategy and Work Program 2009-2011*<sup>4</sup> issued in July 2008 elaborates on the IAASB's rationale in this regard, and explains the intention behind the plan to revise ISRE 2400 and ISRS 4410:

In addition to practical implementation challenges, the prospect of a wider requirement for audits to be conducted in accordance with ISAs has raised concerns in some quarters about whether an audit is the right service for all SMEs. It is the view of the IAASB that "an audit is an audit," and that ISAs are the standards to be applied to all audits. As such, the IAASB does not support any possibility that the audit of SMEs might be carried out to limited auditing standards.

However, in some countries, regulators have introduced exemptions from audit for entities that would otherwise be required to have an audit (e.g., based on the type of entity, its size, or other public interest consideration). Although there may be no requirement for these entities to have any form of third party assurance report on their financial statements, they often request their professional accountants to conduct a review or compilation engagement. Some other countries are currently considering an assurance service for SMEs that would be an acceptable alternative to an audit ("alternative assurance service"). The strategy review consultations did not suggest that it will be necessary to develop a completely new assurance service for this purpose. However, the IAASB plans to revise International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Financial Statements* and International Standard on Related Services (ISRS) 4410, *Engagements to Compile Financial Statements*. The IAASB's current thinking is that such revisions, if undertaken with a sufficiently broad remit, should provide standards for services that provide acceptable alternatives to an audit."

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<sup>4</sup> The strategy document can be accessed at: <http://www.ifac.org/Store/Details.tmpl?SID=1216051339304536>.

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##### A.3 IFAC'S POLICY POSITION ON A SINGLE SET OF AUDITING STANDARDS

12. In October 2008, IFAC issued a policy position<sup>5</sup> that sets out IFAC's view that ISAs are designed to be applicable to audits of financial statements of entities of all sizes. The policy position highlights the ways in which the IAASB considers the needs and perspectives of SMEs in the development of the ISAs. While the policy position emphasizes that the consistent use of the ISAs is essential to meeting the public interest expectations of an audit, it also draws attention to the fact that SMEs have an alternative to obtaining an audit, i.e. they may obtain a review of their financial statements under ISRE 2400.
13. To support this policy position, it is therefore particularly important that IAASB reconsider ISRE 2400 to determine whether it continues to provide a robust and high quality standard for SMPs to use in meeting the needs of their clients for assurance services other than audits.

##### B. Relevant Developments

###### B.1 NSS STAFF CONSULTATION PAPER ON REVISION OF ISRE 2400

14. In September 2008, IFAC released a consultation paper<sup>6</sup> developed jointly by staff of national standard setters (NSS) from New Zealand, Canada and South Africa (the "NSS Consultation Paper") to assist the IAASB in its consideration of a relevant and cost-effective assurance service that is an alternative to an audit for SMEs in particular. The paper, commissioned by the IAASB as a result of discussions on the topic at its annual meeting with NSS in March 2008, focuses on a number of significant matters relevant to a revision of ISRE 2400, including the nature and extent of the work a practitioner should perform in an engagement to review financial statements, and how the level of assurance obtained should best be communicated to users. It also raises a number of other significant discussion points.
15. The publication of the NSS Consultation Paper helps to generate advance input into the IAASB's consideration of whether ISRE 2400 continues to be relevant and appropriate in meeting the needs of the marketplace. The comment period closed on December 15, 2008 and 15 comment letters have been received. The Consultation Paper has been included as CAG Reference Material at the end of this document.

###### B.2 RECENT DISCUSSIONS WITH NATIONAL STANDARD SETTERS

16. Participants at the March 2007 and 2008 IAASB-NSS meetings discussed the related topics of:

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<sup>5</sup> The IFAC policy position, "IFAC's Support for a Single Set of Auditing Standards: Implications for Audits of Small- and Medium-sized Entities," can be accessed at: <http://www.ifac.org/Store/Details.tmp?SID=1222895933491044&Cart=1222899462492192>.

<sup>6</sup> The consultation paper, "Matters to Consider in a Revision of International Standard on Review Engagements 2400, *Engagements to Review Financial Statements*," can be accessed at: <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0118>.

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- Alternative assurance services for SMEs; and
- The New Zealand experience in revising the New Zealand review standard.

17. Among the various views expressed by participants, the following were noted:

- Reviews have been successful in the US and Canada in cases where statutory audits are not required.
- Research conducted by the UK Auditing Practices Board in 2004 indicated that reviews of the financial statements of SMEs had some value; however, discussions with users of such financial statements indicated that there was considerable misconception as to what a review is. (Participants also noted the same observation in a number of other countries, in that users generally have some difficulty in understanding what “moderate assurance” means.)
- The market is an important determinant of the service to be provided to a particular entity.
- There were concerns about developing another level of assurance other than the reasonable assurance (for audits) and limited assurance (for reviews) as established in the Assurance Framework.

18. Notwithstanding the above, participants were supportive of the IAASB undertaking a project to revise ISRE 2400 and ISRS 4410.

#### B.3 NATIONAL DEVELOPMENTS

##### *Developments in Europe*

19. In Europe, efforts have been under way in various countries to explore alternative assurance services for SMEs and to develop standards for such services, often in response to regulatory action to exempt greater numbers of smaller entities from the statutory audit to ease the regulatory burden. Noteworthy developments include the following:

- Denmark has been preparing a draft standard for “limited audit services,” consisting of the audit of major account balances for SMEs. This appears to be preferred over limited assurance engagements.
- In France, there are proposals to exempt SMEs (Sociétés Anonymes Simplifiées) from the statutory audit requirement. There have also been informal discussions regarding a “simplified audit standard” using simplified tools for entities above a certain threshold.
- Germany is developing a draft standard on the preparation of financial statements by a qualified professional that could be considered as going beyond a compilation, whereby a report on the work performed is issued.
- The Netherlands is preparing a new standard on compilations.
- In the UK, the ICAEW has developed guidance for an alternative assurance service (described further below).

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- Within the European Commission, there have been discussions on “limited audit” proposals for SMEs (Stoiber Group).
20. In response to these developments, the Fédération des Experts Comptables Européens (FEE) has initiated a project on the provision of assurance services to smaller entities. In the latter part of 2008, to determine the way forward on its project, FEE launched a survey (FEE Survey)<sup>7</sup> of countries within the European Union regarding the different alternatives that exist, or are being planned, for assurance services for smaller entities within Europe.

#### *Developments in Australia*

21. In April 2006, the Australian Auditing and Assurance Standards Board (AUASB) issued its Standard on Review Engagements (ASRE) 2410<sup>8</sup> based on the IAASB’s ISRE 2410. In August 2008, the AUASB issued ASRE 2400<sup>9</sup> and ASRE 2405.<sup>10</sup> The release of the latter two standards marked the completion of the AUASB’s revision of its suite of standards relating to engagements to review historical financial information.
22. In developing ASRE 2400, the AUASB took the view that standards applicable to the review of a financial report should consist of similar objectives and requirements regardless of whether the review is performed by the entity’s auditor or a practitioner who is not the entity’s auditor. Accordingly, the AUASB developed its ASRE 2400 using ASRE 2410 as a base. As a result of this, ASRE 2400 now includes a number of additional requirements over and above those in the extant ISRE 2400.

#### *Developments in New Zealand*

23. In New Zealand, the Professional Standards Board (PSB) has also been working on a project to revise its review engagement standards. The PSB is expected to issue an exposure draft in Q1 2009, and a revised standard in Q3 2009.

#### *Developments in the US – The AICPA’s Reliability Project*

24. The American Institute of Certified Public Accountants’ (AICPA’s) Accounting and Review Services Committee (ARSC) has established a Task Force on an initiative called the “Reliability Project.” This Task Force has been charged with developing an alternative framework for review and compilation engagements to address the following issue.

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<sup>7</sup> The FEE survey closed on January 9, 2009. FEE has provided a copy of the preliminary results of the survey to IFAC staff.

<sup>8</sup> ASRE 2410, “Review of Interim and Other Financial Reports Performed by the independent Auditor of the Entity.”

<sup>9</sup> ASRE 2400, “Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity.”

<sup>10</sup> ASRE 2405, “Review of Historical Financial Information Other than a Financial Report.”

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25. Since their introduction in December 1978, compilation and review services have proved important to SMEs in the US. However, the limited resources of these entities often prevent them from being self-sufficient in terms of preparing financial statements that fully comply with US generally accepted accounting principles. Accordingly, these entities have frequently sought the assistance of their accountants to assist them in the preparation of their financial statements. This gives rise to the issue in question because under current ethical rules, US practitioners are not permitted to serve in a capacity that would result in them being considered part of their clients' systems of internal control over financial reporting.
26. Related to this, an article published in the September 2003 edition of the journal *Accounting Horizons* concluded that practitioners can never truly be independent as long as their clients pay their fees. The authors asserted that, while independence is an important consideration, the profession has placed undue emphasis on it and that a better alternative would be to place greater emphasis on reliability – i.e. users should be asking the question, “How reliable is the practitioner who is reporting on these financial statements?” The authors believe that reliability is a function of objectivity, expertise, integrity and independence, and that a practitioner can provide reliable services even if that practitioner is not entirely independent.
27. In the light of this, the AICPA's ARSC formed the Reliability Task Force comprising practitioner representatives, financial statement preparers, third-party users of financial statements, and the co-authors of the *Accounting Horizons* article. The Task Force was charged with considering the viability of this framework and making recommendations to the ARSC regarding its potential applicability to compilation and review engagements.
28. In March 2008, the Task Force issued its recommendations on an alternative framework for compilation and review engagements that include categorizing current independence requirements into the following types:

Type of Independence	Threats to Achievement
Relationship	Family member of CPA serves in a key management position at client
Financial	CPA holds a direct or indirect financial interest in the client
Control Services	CPA performs services as part of the client's internal control system

29. The Reliability Task Force is of the view that, even if the practitioner's independence were to be impaired due to the performance of certain control services, the practitioner should still be able to express limited assurance on the entity's financial statements provided that it could be demonstrated that the practitioner maintained objectivity and provided reliable services.
30. At its November 2008 meeting, the ARSC considered a first draft of a proposal from the Task Force that operationalizes the new framework in the context of compilation and review services. The proposed framework is expected to be issued for public comment in May 2009.

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##### *ICAEW's Assurance Service on Unaudited Financial Statements*

31. In 2006, the Institute of Chartered Accountants in England and Wales (ICAEW) released interim guidance for the UK market regarding a new assurance service positioned between a statutory audit and a compilation that could be offered to audit-exempt entities on a voluntary basis.<sup>11</sup> The principal factor that prompted the ICAEW to consider this type of assurance service was the upward trend in the audit exemption threshold in the UK (the ICAEW also took this opportunity to address a number of issues that arose in a prior project in the UK to develop a review service called the Independent Professional Review).<sup>12</sup>
32. The ICAEW's service requires the practitioner to perform inquiries of management and analytical procedures and based on these initial procedures, to determine whether there are areas where further work, including obtaining corroborative evidence, is necessary and, if so, the extent of such work (a "risk-based review"). The guidance underpinning the service is based on the IAASB's Assurance Framework. It indicates that a practitioner's report issued under this service uses the negative form of expression of the practitioner's conclusion.
33. The ICAEW guidance notes that one of the benefits of the assurance service is that, in contrast to compilation engagements, the assurance service may lend greater credibility to historical financial information to third parties to whom the practitioner may agree to provide an assurance report. The guidance further notes that the service may also provide UK directors with an additional degree of comfort on the financial statements for which they are responsible.

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<sup>11</sup> The ICAEW's guidance can be accessed at: [http://www.icaew.com/index.cfm/route/141484/icaew\\_ga/Technical\\_amp\\_Business\\_Topics/Thought\\_leadership/re\\_Assurance/Assurance\\_Service\\_on\\_unaudited\\_financial\\_statements/pdf](http://www.icaew.com/index.cfm/route/141484/icaew_ga/Technical_amp_Business_Topics/Thought_leadership/re_Assurance/Assurance_Service_on_unaudited_financial_statements/pdf).

<sup>12</sup> In 2001, in the context of a proposed increase in the audit exemption threshold for the statutory audit, the UK Auditing Practices Board field tested a proposed new assurance service, the Independent Professional Review (IPR), that was intended to be a lighter form of assurance than the audit. It was anticipated that if the audit exemption threshold were to be raised, the statutory audit would be replaced by the IPR. The IPR procedures were restricted to analytical review and inquiry of management. The field trials, however, indicated that firms experienced both technical and practical difficulties. In particular, there were problems in performing specific analytical procedures for small entities where detailed accounting information was not maintained, industry data was not available, and budgetary information was sparse. Where analytical procedures were performed, practitioners often found it difficult to obtain satisfactory explanations for trends or variations. They also were uncomfortable with the extent of reliance on directors' explanations. In addition, almost all the practitioners reported that they were uncomfortable with the negativity of the review report, which was perceived as failing to communicate clearly the work performed and the level of assurance provided. On the basis of these findings, the APB discontinued the IPR project. (ICAEW Issues Paper, "Audit-Exempt Companies: Beyond the Threshold.")

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### III. Project Objective and How it Serves the Public Interest

#### A. Project Objective

34. The objective of this project is to revise ISRE 2400 and ISRS 4410 so that they provide standards for services that provide acceptable alternatives to the audit.
35. A prerequisite to achieving this objective will be to obtain a thorough understanding of regulatory and market demands and practice around the world regarding alternative assurance services so as to inform the project considerations relating to the nature and form of the expected outputs, and the target audience.

#### B. How the Project Objective Serves the Public Interest

##### *Responding to the Needs of the Marketplace*

36. The numerous efforts outlined above in the area of alternative assurance services, and the responses to the IAASB's strategy review consultations, indicate a clear market need for an alternative form of assurance to the audit. This need is being driven as much by action to lighten the regulatory burden for SMEs as by recent changes in auditing standards, which certain parts of the stakeholder community (particularly SMPs) have perceived as having had the effect of increasing the complexity and cost of the audit. The project objective will serve the public interest by meeting this clear market need.

##### *Need to Preserve the Meaning and Integrity of the Audit Concept*

37. Proposals for "simplified," "differential" or "limited" auditing standards that are currently being contemplated in some jurisdictions have the potential to undermine the IFAC policy position that "an audit is an audit,"<sup>13</sup> or even encourage entities and their auditors to opt for less rigorous auditing standards. The project objective will serve the public interest by establishing standards that meet market needs for alternatives to the audit yet preserve the meaning and integrity of the audit concept.

##### *Need for Common Standards Internationally*

38. Equally, the proliferation of efforts around the world to develop new or revised standards for alternative assurance services may have the potential risk of creating divergent assurance interpretations internationally. There is a need to identify the common issues associated with practitioners' involvement in alternative assurance engagements internationally, and to agree on approaches that would best address these issues. The project objective will serve the public interest by establishing standards that can be globally accepted and to which national standards can converge.

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<sup>13</sup> The IFAC Policy Position, issued in September 2008, can be accessed at: <http://www.ifac.org/Store/Details.tmp?SID=1222895933491044&Cart=1222899462492192>.

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##### *Need to Improve Users' Understanding of the Practitioner's Limited Assurance Report*

39. Anecdotal evidence suggests that users continue to experience difficulty in understanding what “limited” or “moderate” assurance means in a review engagement. In many cases, uninformed users misconstrue the practitioner’s report in a review engagement as representing audit-level assurance. A priority issue that this project will address is how to better communicate to users the level of assurance obtained in a review engagement, and how to communicate appropriately if standards for other alternative assurance services are developed. Accordingly, the project objective will serve the public interest by seeking to improve users’ understanding of the practitioner’s report for such services.

#### **IV. Outline of the Project**

##### **A. Project Scope**

40. The scope of this project is the revision of ISRE 2400 and ISRS 4410 so that they provide standards for services that provide acceptable alternatives to the audit.
41. A key part of the project will be to understand what regulatory and market demands and practice are internationally in the area of alternative assurance services so that the most appropriate and practical outputs for this project can be determined. This will involve, among other things, consideration of relevant standard-setting developments at the national level and input received from the NSS Consultation Paper and the FEE Survey.
42. Part of the project will also involve appropriate coordination and liaison with the regulatory community so that regulatory stakeholders can be informed on a timely basis about any alternative assurance services that may be contemplated, and their support obtained for such services. This would then enable them to consider, in the light of the public interest benefits, the appropriateness of taking up any such services within their regulatory frameworks as viable alternatives to the audit.
43. There will be a need to coordinate with the International Ethics Standards Board for Accountants (IESBA) to the extent that any proposals that this project may consider raise independence issues.
44. While the project will consider the relevant requirements and guidance in ISRE 2410, it will not include a revision of that standard. Nevertheless, the project may identify issues relevant to a future revision of ISRE 2410.

##### **B. Major Problems and Key Issues that Will Be Addressed**

45. Without prejudice to any other matters the project task force may bring before the IAASB, the issues to be addressed in this project include the following.

###### **B.1 NATURE AND FORM OF EXPECTED OUTPUTS**

46. A key issue that will need to be addressed before anything else in this project is what should be the expected outputs of the project and for whom these outputs should be aimed. The

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relevant considerations underpinning these determinations should be informed by appropriate research into regulatory and market demands and practice around the world regarding alternative assurance services.

#### B.2 SPECIFIC ISSUES PERTAINING TO ALTERNATIVE ASSURANCE SERVICES GENERALLY

##### 47. Specific issues that warrant consideration include the following:

- What are the assurance needs of users of SME financial statements?
- Other than a pure review as specified by the extant ISRE 2400, what other options would represent acceptable assurance alternatives to the audit, and what implications might there be for independence? In particular, should more flexible forms of assurance be considered based on combinations of services (e.g. the German model)<sup>14</sup> that practitioners could agree with their clients and that would better meet the clients' needs ("agreed-upon services")?
- To what extent might independence rules be waived by consent and disclosure? Consideration will be given to developments in the AICPA's Reliability Project in this regard.
- In what ways can the range of assurance levels to which practitioners work be narrowed?
- Should an alternative assurance service be limited to SMEs?

#### B.3 REVISION OF ISRE 2400

##### *Significant Issues Identified in the NSS Consultation Paper*

48. The NSS Consultation Paper (**Agenda Item 4-D.1 of the March 2009 IAASB meeting**) sets out a number of specific issues pertaining to a revision of ISRE 2400.

#### B.4 REVISION OF ISRS 4410

49. Issues pertaining to a specific revision of ISRS 4410 include the following.

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<sup>14</sup> In Germany, practitioners have been offering 3 different types of compilation services for some time:

- Pure compilation, i.e. no assurance given on books and records presented
- Analytical procedures and inquiries with compilation, i.e. evaluation of the plausibility of the vouchers, books and records presented
- Comprehensive audit-type procedures with compilation, i.e. evaluation of the propriety of the vouchers, books and records presented by performing appropriate audit-type procedures

(The IDW is in the process of developing its proposed Standard 7 which will replace its existing standard that addresses these types of services.)

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##### *Scope*

50. The project will reconsider the scope of ISRS 4410 as the presumption that management is able to make judgments about accounting matters may appear inconsistent with management's inability to prepare the financial statements, as is often the case in the SME environment.

##### *Other Issues*

51. Other issues to be considered include:
- Preconditions for engagement acceptance, including:
    - Nature of the premise on which a compilation engagement is performed.
    - The practitioner's responsibility to evaluate the acceptability of the financial reporting framework on which the compilation is based.
  - Nature and extent of procedures needed, including with respect to understanding the entity.
  - Nature, form and extent of management representations.
  - Nature of the practitioner's responsibility to avoid being associated with misleading information.
  - Form and content of the practitioner's report.

#### **C. Impact Assessment Considerations**

52. The primary benefit in identifying and developing more relevant and appropriate alternative assurance services is that these will provide cost-saving alternatives to the audit, particularly for SMEs. Users will also benefit from practitioners' involvement in these engagements through greater transparency and reliability of financial statements.
53. There is a possibility of increased costs relative to current review engagements if a combination of services approach is adopted that involves audit-level work in some targeted ways.
54. While larger firms often perform non-audit assurance engagements for smaller entities, the output of this project will be of particular relevance to SMPs in terms of the range of services they will be able to provide.
55. The need for, and the nature and form of, any formal impact assessment in this project will be subject to the recommendations of Task Force charged with undertaking the separate IFAC project on impact assessments. As part of the impact assessment for this project, consideration will be given to the need for field testing any proposals that the project Task Force may develop.

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### **V. Implications for Any Specific Persons or Groups**

56. The project has particular implications for the following:
- (a) IESBA, to the extent that implications for independence may arise from any proposals that this project may consider.
  - (b) IFAC SMP Committee, and smaller practitioners in general.
  - (c) Forum of firms.
  - (d) National standards setters that are involved in, or are contemplating, the development of relevant standards for alternative assurance services.
  - (e) Regional organizations such as FEE.
  - (f) Regulatory bodies that establish rules and regulations regarding the provision of assurance services by practitioners.

### **VI. Development Process, Public Consultation, Project Timetable and Project Output**

#### **A. Development Process**

57. As envisaged in the 2009-2011 IAASB strategy document, the revision of ISRE 2400 and ISRS 4410 should proceed at the same time within the same project, as issues and proposals that may be considered will likely be interrelated and affect both standards (e.g. if combinations of services are being contemplated).
58. It is expected that the project task force will present its findings and recommendations to the IAASB at the appropriate time regarding the most appropriate way forward in terms of expected outputs and targeted audience (high level “directions” paper), and seek the IAASB’s views and agreement thereon.
59. In addition, the project should consider the results of the academic research project on the auditor’s report communication that the IAASB has commissioned jointly with the AICPA and the American Accounting Association, as these may provide relevant input to the consideration of the reporting and communication issues in this project.

#### **B. Research and Public Consultation**

60. The project will research current regulatory requirements and market demand and practice internationally regarding alternative assurance services. This will be done through appropriate research and consultative channels, including, but not limited to, the issue of a public consultation paper or the undertaking of a global survey (perhaps using the FEE Survey as a basis).<sup>15</sup>

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<sup>15</sup> FEE has indicated its willingness to collaborate with IAASB on this in order to consolidate findings.

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#### C. Project Timetable

Project Stage	Timing
Approval of project proposal by IAASB	March 2009
Consideration of a consultation paper/global survey	September 2009
Full review of consultation responses and high level “directions paper”	March 2010
Issues Paper and First Read	September 2010
Approve exposure draft(s)	December 2010
Full review of exposure draft comments and first read post-exposure	September 2011
Approve final standard(s)	December 2011

#### D. Project Output

61. Standards that provide acceptable alternatives to the audit.
62. It is anticipated that the standards will be drafted in the IAASB’s Clarity drafting conventions.

### VII. Resources Required

63. A project task force consisting of up to 6 individuals. In addition, correspondent members with relevant expertise in the area of review engagements or alternative assurance services may be sought as appropriate.
64. The Steering Committee determined at its December 2008 meeting that Ms. Susan Jones be invited to chair the task force in her capacity as an IAASB member.
65. Consideration will be given to the need to obtain appropriate input from the IESBA on matters relating to independence.
66. IAASB technical staff will provide staff support to the task force.

### VIII. Relevant Sources of Information that Address the Matter Being Proposed

67. Relevant sources of information include the following:
  - September 2008 NSS Staff Consultation Paper, “Matters to Consider in a Revision of International Standard on Review Engagements 2400, *Engagements to Review Financial Statements*,” and comments received from respondents.
  - Responses to the November 2008 FEE survey of European countries regarding the provision of alternative assurance services in Europe.

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- Relevant input from the ongoing work of the AICPA's Accounting and Review Services Committee's Reliability Task Force.
- AICPA's Statements on Standards for Accounting and Review Services (SSARs) 100 and 100A, "Compilation and Review of Financial Statements," and related interpretations 9100 and 9100A.
- Australian Auditing and Assurance Standards Board's August 2008 Standard on Review Engagements (ASRE) 2400, "Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity."
- Australian Auditing and Assurance Standards Board's August 2008 ASRE 2405, "Review of Historical Financial Information Other than a Financial Report."
- CICA Review Engagement Standards, Sections 8100 "General Review Standards," 8200 "Public Accountant's Review of Financial Statements," and 8500 "Reviews of Financial Information Other Than Financial Statements."
- ICAEW August 2006 Issues Paper, "Audit-exempt Companies: Beyond the Threshold."
- ICAEW Interim Technical Release AAF 03/06, "The ICAEW Assurance Service on Unaudited Financial Statements."
- UK APB report issued after pilot testing in 2001 of standards developed for a proposed Independent Professional Review.
- IDW Proposed Standard 7, "Compilation Engagements."

#### **Material Presented – IAASB CAG REFERENCE PAPERS ONLY**

September 2008 Consultation Paper – "Matters to Consider in a Revision of International Standard on Review Engagements 2400, *Engagements to Review Financial Statements*"

<http://www.ifac.org/Guidance/EXD-Details.php?EDID=0118>