



Meeting: IAASB Consultative Advisory Group
Meeting Location: New York
Meeting Date: September 11, 2012

Agenda Item F.2

Engagements to Review Historical Financial Statements—ISRE 2400 (Revised)

Objective of Agenda Item

1. To provide a report back on proposals of the Representatives on revised ISRE 2400¹ as discussed at the March 2012 CAG Meeting.

Project Status and Timeline

2. At the March and June 2012 IAASB meetings, the IAASB considered significant issues arising from the responses to the exposure draft of ISRE 2400 (Revised) (ED-2400) and the recommendations of the Task Force on those issues. The IAASB also considered the Representatives' proposals for responding to a number of those issues. At its June 2012 meeting, the IAASB developed and finalized responses to the significant issues and approved ISRE 2400 (Revised) for issue, subject to confirmation by the Public Interest Oversight Board that due process has been followed.
3. The Appendix to this paper provides a project history, including links to the relevant CAG documentation.

March 6–7, 2012 CAG Discussion

4. Below are extracts from the draft minutes of the March 2012 CAG meeting,² and an indication of how the project Task Force or IAASB has responded to the Representatives' comments.

Representatives' Comments	Task Force/IAASB Response
The Definition of Limited Assurance	
Mr. Morris, Mr. Hansen and Ms. de Beer questioned whether the definition of LA should be linked to the risk of the financial statements being materially misstated and the practitioner reporting inappropriately.	Point taken into account. The IAASB considered this point and concluded that it would be helpful for practitioners' understanding to include a definition of engagement risk that is aligned to the description of that term in the <i>International Framework for</i>

¹ International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

² The minutes will be approved at the September 2012 IAASB CAG meeting.

Representatives' Comments	Task Force/IAASB Response
	<p><i>Assurance Engagements</i> (Assurance Framework).</p> <p>[See paragraph 17(b) of ISRE 2400 (Revised).]</p>
Mr. Diomeda noted that the objective mirrored the conclusion, which was problematic as he did not support the use of the negative conclusion.	<p>Point regarding the objective taken into account.</p> <p>The IAASB amended the objective to further explain the purpose of obtaining assurance with reference to whether the financial statements as a whole are free from material misstatement.</p> <p>The IAASB reaffirmed its position that a negative conclusion continued to be appropriate, and that it provided a positive message that a skilled professional has considered the financial statements and concluded that nothing has come to his or her attention.</p>
Ms. Blomme expressed the view that the definition of LA should not refer to RA as users may not understand RA.	<p>Point not accepted.</p> <p>The IAASB believed it was more important to maintaining consistency between the concepts of assurance as described in the Assurance Framework, and the way those concepts are included in the IAASB's Engagement Standards, including ISRE 2400 (Revised).</p> <p>[See paragraph 17(b) of ISRE 2400 (Revised).]</p>
Evidence Based Nature of the Engagement	
Mr. Koktvedgaard asked if the level of materiality is different in a review engagement as compared to an audit.	<p>The IAASB agreed that the assessment of materiality does not differ between an audit of financial statements and a review.</p> <p>Under ISRE 2400 (Revised), the practitioner is required to determine materiality for the financial statements as a whole, and apply this materiality in designing the procedures and in evaluating the results obtained from those procedures.</p> <p>The ISRE also explains in application material that the practitioner's judgment about what is material in relation to the financial statements as a whole is the same regardless of the level of assurance obtained by a practitioner as the basis for</p>

Representatives' Comments	Task Force/IAASB Response
	<p>expressing the conclusion on the financial statements.</p> <p>[See paragraphs 47 and A53 of ISRE 2400 (Revised).]</p>
<p>Mr. Bluhm supported the evidence based nature of reviews.</p>	<p>Support noted.</p>
<p>Mr. Hansen suggested that the level of evidence needed in a review should be better distinguished from that in an audit, the latter being more directed towards verification.</p>	<p>Point accepted.</p> <p>The TF held the view that, while the nature and extent of evidence needed differs between audits and reviews, sufficient appropriate evidence is required in both engagements. Therefore the decision was made to not use a formal risk assessment model as this would blur the distinction between a review and an audit.</p> <p>In regard to use of “sufficient appropriate evidence” in the ISRE, the IAASB reaffirmed its view that the evidential basis for a review must be sufficient and appropriate for the practitioner to conclude and report on the financial statements in the form required by the standard, and that it is important to recognize this essential element of a review as an assurance engagement based on obtaining limited assurance. The IAASB also noted the potential for the review engagement to be viewed and performed as a “procedures-based” engagement unless it is clearly conveyed in the ISRE that a review is an evidence-based assurance engagement.</p> <p>However, recognizing that some of the ED respondents thought that the term is used only for audit engagements, the IAASB agreed to add application material to the definition of limited assurance in ISRE 2400 (Revised) to clarify the meaning of the term in the context of a review.</p> <p>[See paragraph A13 of ISRE 2400 (Revised).]</p>
<p>Mr. Stewart asked if the TF was of the view that a practitioner conducting a review attempts to gain a comprehensive understanding of the financial</p>	<p>In both cases, the practitioner obtains sufficient appropriate evidence in order to conclude (in the case of a review) or opine (in the case of an audit)</p>

Representatives' Comments	Task Force/IAASB Response
<p>statements, whereas an auditor attempts both to gain a comprehensive understanding of the financial statements and to verify them.</p>	<p>on the financial statements.</p> <p>Following the IAASB's consideration of the responses received on ED-2400, ISRE 2400 (Revised) now gives the central concept of limited assurance more prominence in the statement of the practitioner's objectives, in the definitions contained in the ISRE, and in the approach to performing the engagement and in reporting.</p> <p>The IAASB accepted the ED respondents' comments that the concept of limited assurance needs to be more prominent in the ISRE, as an important term of reference for practitioners. The definition of the term contained in ISRE 2400 (Revised) emphasizes that to achieve limited assurance engagement risk is reduced to a level that is acceptable in the circumstances, but that the level of assurance obtained must be meaningful in the context of being likely to enhance the intended users' confidence in the financial statements. The practitioner's knowledge of the entity's financial statements in a review is in this context and the practitioner designs and performs procedures sufficient to obtain limited assurance as described in the ISRE. In some situations the procedures could also include types of procedures that are performed in an audit for purposes of verification.</p> <p>[See paragraphs 5-6, 14, 17(f), 73 and 86(g) of ISRE 2400 (Revised).]</p>
<p>Mr. Hansen asked if it was possible that the level of additional procedures could raise a review to the level of an audit.</p>	<p>The IAASB noted that, if the situation arises where additional procedures are required in a review, the practitioner is required to exercise professional judgment in designing and performing additional procedures to respond appropriately in that situation. Depending on the circumstances, the practitioner may decide to perform certain types of procedures that are ordinarily performed in an audit, particularly if the evidence before the practitioner gives the practitioner cause to believe that the financial</p>

Representatives' Comments	Task Force/IAASB Response
	<p>statements are materially misstated in one or more respects. In that circumstance, ISRE 2400 (Revised) requires the practitioner perform procedures sufficient to <i>determine</i> that the financial statements are materially misstated, i.e. the practitioner is required to obtain sufficient appropriate evidence in forming that conclusion.</p> <p>When this occurs in a review engagement, the practitioner's objectives for the engagement do not change, however, and the engagement remains a limited assurance engagement notwithstanding that the practitioner may have performed additional procedures under the ISRE. In conceptual terms, the additional procedures have the effect of reducing the engagement risk to a level that the practitioner considers acceptable in the engagement circumstances.</p> <p>[See paragraph 57 of ISRE 2400 (Revised).]</p>
Assurance Skills and Techniques	
<p>Mr. Bluhm questioned whether the list of considerations regarding assurance skills and techniques could be better tailored to review engagements.</p>	<p>Point accepted.</p> <p>The IAASB agreed that the list of considerations in the description of assurance skills and techniques contained in ISRE 2400 (Revised) is generic to assurance engagements for financial information/financial statements. The IAASB agreed, however, to amend the point regarding consideration of materiality and engagement risks, to refer to the nature, timing and extent of procedures <i>for the review</i>.</p> <p>[See paragraph A26 of ISRE 2400 (Revised).]</p>
<p>Mr. Hines asked if the list of assurance skills and techniques should be replicated in other standards, or, alternatively, set forth in one overarching document.</p>	<p>The IAASB noted that in developing the Exposure Draft of ISAE 3000³ it had drawn on the earlier work of the International Accounting Education Standards Board (IAESB), which had also been giving consideration to developing a common</p>

³ Proposed ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

Representatives' Comments	Task Force/IAASB Response
	<p>description of the term assurance skills and techniques for purposes of the International Accounting Education Standards. The IAESB's work in this area is still ongoing.</p> <p>The IAASB agreed that, given the role of the assurance standards in promoting a consistent approach to the delivery of engagement quality in assurance engagements, there needs to be a common description of assurance skills and techniques for use throughout the IAASB's assurance standards. The IAASB noted that it is possible that the ISAEs and ISREs could, in some jurisdictions, be used by persons who are not accredited auditors or assurance providers.</p> <p>The IAASB acknowledged that, in approving ISRE 2400 (Revised) while ISAE 3000 (Revised) is still under development, when ISAE 3000 is prepared in final form for approval by the IAASB, there may be a need for a consequential amendment to ISRE 2400 (Revised) to ensure that there is a single description of the term assurance skills and techniques used in all the relevant assurance standards.</p>
Other Comments	
<p>Ms. Lang asked whether the use of the terms "further procedures" and "additional procedures" in paragraph A87 was a deliberate distinction, noting that it may cause translation difficulties. She suggested replacing "further" with "more".</p>	<p>Point accepted.</p> <p>The IAASB noted that respondents to ED-2400 signaled the need for the two situations where the practitioner is required under ISRE 2400 (Revised) to undertake more work effort in a review engagement to be clearly differentiated in the wording of the ISRE.</p> <p>To enhance the clarity of the ISRE, the IAASB continued to use the phrase "additional procedures" in relation to circumstances that cause the practitioner to believe the financial statements may be materially misstated. However, the ISRE as approved now uses the term "other procedures" for the circumstances where the practitioner judges it appropriate to design and</p>

Representatives' Comments	Task Force/IAASB Response
	<p>perform procedures other than inquiry and analytical review in planning and performing the review engagement, to obtain sufficient appropriate evidence to be able to form a conclusion on the financial statements.</p> <p>[See paragraphs 57 and 66 of ISRE 2400 (Revised).]</p>
<p>Messrs. Diomeda and Koktvedgaard noted that the “negative” form of the conclusion was still being used, and outlined their continued preference for a more positive form. Mr. Diomeda noted that recent changes in Europe may increase the scope for the use of reviews as opposed to an audit and that the IAASB may therefore need to revisit LA more broadly at a later date. Ms. de Beer and Ms. Lang noted that this issue had been raised in previous CAG meetings, and that the need for an assurance engagement stronger than a review could be revisited in the future, perhaps by the planned IAASB INFO Working Group.</p>	<p>Point taken into account.</p> <p>The proposed conclusion is, in some ways, a positive message that a skilled professional has considered the financial statements and concluded that nothing has come to his or her attention. In considering the responses received to ED-2400, the IAASB noted that the majority of respondents who commented on this matter agreed that the practitioner’s report using the limited assurance form of conclusion adequately communicates to users the work undertaken by the practitioner for the review. Many of those respondents also agreed on the importance of using the prescribed form of conclusion as a way to differentiate the review from an audit, and to minimize the risk that users may not otherwise appreciate the limited assurance associated with a review conclusion.</p> <p>The IAASB recognized that the form of the practitioner’s conclusion in the report issued for a review engagement is an important element of the practitioner’s communications in the report, to mitigate the risk that users could misunderstand the engagement as being associated with a higher level of assurance than the review engagement affords.</p>
<p>Mr. Koktvedgaard asked whether, in a review, a higher risk of material misstatement is accepted than in an audit.</p>	<p>Mr. Cowperthwaite confirmed that the risk of not detecting a material misstatement is higher in a review as less evidence is obtained. He added that this is why emphasizing the importance of assurance skills and techniques in the standard is important given the context of reviews.</p>

Representatives' Comments	Task Force/IAASB Response
	<p>In finalizing ISRE 2400 (Revised) and ISAE 3410,⁴ the IAASB also adopted a common approach for limited assurance engagements that requires the practitioner to perform additional procedures upon becoming aware of anything that causes the practitioner to believe that the financial statements may be materially misstated.</p> <p>This is a significant element of the limited assurance engagement directed to reducing engagement risk. In such situations the practitioner is required to design and perform additional procedures sufficient to enable the practitioner to either conclude that the financial statements are not materially misstated, or determine that the financial statements are materially misstated.</p> <p>[See paragraph 57 of ISRE 2400 (Revised).]</p>

Matters for CAG Consideration

- The Representatives are asked to note the Report Back above, in particular the changes made as a result of the CAG's comments.

IAASB Interaction with the IAASB CAG

- There are no substantive issues being raised for the purposes of the September 2012 IAASB meeting as the IAASB has approved the standard at its June 2012 meeting. Accordingly, this report back serves as the final update to the CAG Representatives on this project.

Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY

Updated Agenda Item 2-C of the June 2012 IAASB Meeting – Final ISRE 2400 (Revised) Marked to show changes agreed at the June 2012 IAASB Meeting

[http://www.ifac.org/sites/default/files/meetings/files/20120615-IAASB-Updated_Agenda-Item-2C_FINAL_ISRE_2400\(Revised\).pdf](http://www.ifac.org/sites/default/files/meetings/files/20120615-IAASB-Updated_Agenda-Item-2C_FINAL_ISRE_2400(Revised).pdf)

⁴ ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

Appendix

Project History

Project: Proposed ISRE 2400 (Revised), Engagements to Review Historical Financial Statements

Summary

	CAG Meeting	IAASB Meeting
Project Commencement	March 2009	March 2009
Development of Proposed International Pronouncement (up to Exposure)	September 2009 March 2010 September 2010 March 2011	September 2009 March 2010 June 2010 September 2010 December 2010
Exposure	December 2010	
Consideration of Respondents' Comments on Exposure	March 2012	December 2011 March 2012
Final Approval of Proposed Pronouncement	March 2012	June 2012

CAG Discussions: Detailed References

Project Commencement	<p><u>March 2009</u></p> <p>See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4599</p> <p>See CAG meeting minutes (in Agenda Item H of the following material): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5589</p> <p>See report back on March 2009 CAG meeting (in paragraph 13 of the following material): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4932</p>
Development of Proposed International Pronouncement	<p><u>March 2009</u></p> <p>See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4599</p> <p>See CAG meeting minutes (in Agenda Item H of the following material): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5589</p>

	<p><u>September 2009</u></p> <p>See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4932</p> <p>See CAG meeting minutes (in Agenda Item F of the following material): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5305</p> <p><u>March 2010</u></p> <p>See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5267</p> <p>See CAG meeting minutes (in Agenda Item M of the following material) http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5882</p> <p><u>September 2010</u></p> <p>See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5670</p> <p>See CAG meeting minutes (in Agenda Item D of the following material) http://www.ifac.org/sites/default/files/meetings/files/6186_0.pdf</p> <p><u>March 2011</u></p> <p>See report back on September 2010 meeting: http://www.ifac.org/sites/default/files/meetings/files/6112_0.pdf</p> <p>See CAG meeting minutes (in Agenda Item J.4 of the following material). http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemA-Final_March_2011_Public_Minutes_APPROVED-v1-03.pdf</p>
<p>Consideration of Respondents' Comments</p>	<p><u>March 2012</u></p> <p>See IAASB CAG meeting material http://www.ifac.org/sites/default/files/meetings/files/20120306-IAASB-CAG-Agenda_Item_N-ISRE-2400_v4.pdf http://www.ifac.org/sites/default/files/meetings/files/20120306-IAASB-CAG-Agenda_Item_N.1-ISRE-2400_v2.pdf</p> <p>See CAG meeting minutes (in Agenda Item N of the following material):</p> <p>See draft March 2012 CAG meeting minutes at Agenda Item A.</p> <p>See report back on March 2012 CAG meeting in paragraph 4 of this CAG paper.</p>

Final Approval of Proposed Pronouncement	June 2012
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