

**Proposed ISRE 2400—Summary of Remaining Significant Comments  
on Exposure and IAASB Task Force Proposals****Introduction**

1. In December 2011 the IAASB considered a number of significant issues the Task Force identified arising from the responses received to the Exposure Draft of proposed revised ISRE 2400 (ED-2400).<sup>1</sup> The IAASB provided direction and suggestions for the proposed ISRE in a number of key areas. This Issues Paper presents the remaining significant issues arising from the Task Force's analysis of responses received.
2. Sections A and B of this paper discuss proposed amendments to the draft ISRE regarding:
  - (a) The decision to include the term "limited assurance" in the ISRE, defined in the context of a review engagement, and application material explaining how the concept applies in a review engagement. (Issue A)
  - (b) The Task Force's proposal to clarify the evidence-based nature of the engagement to review financial statements, as a form of assurance engagement. (Issue A.1)
  - (c) The decision to include a requirement for the practitioner performing a review engagement to possess competencies in assurance skills and techniques. (Issue B)
3. Section C addresses remaining significant issues arising from the Task Force's full review of the responses received for ED-2400. These largely relate to the approach to designing the work effort for a review engagement, and performing the review (Issue C.1). Specific areas where respondents provided significant comments are:
  - (a) Obtaining an understanding sufficient to identify areas in the financial statements where material misstatement is likely to arise (Issue C.2);
  - (b) Use of analytical procedures in a review engagement (Issue C.3);
  - (c) Evaluating evidence obtained from procedures performed and, where necessary, performing further procedures (Issue C.4); and
  - (d) Performing additional procedures when the practitioner becomes aware that the financial statements may be materially misstated (Issue C.5).
4. Recommendations take account of the IAASB's feedback provided in its discussion of the preliminary issues raised at its meeting in December 2011.

**Significant Issues****A. Use of the Term "Limited Assurance"**

5. At the December 2011 IAASB meeting, the majority of IAASB members expressed support for the Task Force's recommendation, based on comments received from respondents to ED-2400, to use the term "limited assurance" in the proposed ISRE and state its meaning as a defined term for the

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<sup>1</sup> See Agenda Item 8-A of the Agenda Materials presented for the IAASB meeting in December 2011, available at: <http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6248>

purpose of ISRE 2400. The Task Force proposed this change to the draft ISRE because it believes that defining and using the term limited assurance for a review of financial statements is the best way to address respondents' concerns that the practitioner's objectives for the engagement are not sufficiently clear concerning the limited assurance nature of the engagement, evidence requirements, and the relationship of these to the form of conclusion given in the practitioner's report. Further, doing so will also help to better clarify the difference between a review and an audit.

*Task Force Recommendations*

6. The Task Force proposes to include the defined term "limited assurance" in the draft ISRE. The definition would make clear the intended meaning of the term in the context of a review of financial statements performed under ISRE 2400. The definition is accompanied by application material to explain the term's relevance and application in a review engagement. The proposed definition is aligned with the definition contained in the exposure draft of proposed ISAE 3000 (Revised)<sup>2</sup> (ED-3000), and is aligned with the explanation of the term contained in the extant *International Framework for Assurance Engagements*<sup>3</sup> (the Assurance Framework) and also the definition contained in the proposed amended Assurance Framework.
7. The Task Force believes these proposed amendments are responsive to many comments on ED-2400 as they enable the term "limited assurance" to be used in key areas throughout the draft ISRE (for example, in the description of the practitioner's objectives for the engagement) to give better context to the requirements and the application material.
8. Amendments to the draft ISRE proposed by the Task Force regarding the use of the term limited assurance are shown below. (See Agenda Item 3-B.)

¶	(Proposed additions are shown as <u>underlined text</u> , deletions as <del>strike-through text</del> )
	<b>The Engagement to Review Financial Statements</b>
5	The review of historical financial statements is a limited assurance engagement, as described in the <i>International Framework for Assurance Engagements</i> (the Assurance Framework). <sup>4</sup> (Ref: Para. A6–A8)
7	<del>In a review of financial statements, t</del> The practitioner performs procedures, primarily <u>consisting of</u> inquiry and analytical procedures, to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole, expressed in accordance with the requirements of this ISRE. (Ref: Para. A8)
A8	<u>In a review engagement the practitioner's conclusion on the financial statements, expressed in accordance with the requirements of this ISRE, is based on the practitioner having obtained limited assurance as the basis for the conclusion. The practitioner performs procedures, primarily consisting of inquiry and analytical procedures, and evaluates the evidence obtained to obtain sufficient appropriate evidence as the basis for the purpose of forming a</u> <del>the conclusion, on the financial statements, expressed in accordance with the requirements of this ISRE. Expression of t</del> The practitioner's <u>report conclusion in accordance with the requirements of this ISRE communicates to users includes a description of the nature of a review engagement of the practitioner's report as context for the readers of the report to be able to understand the conclusion expressed on the financial statements. that the practitioner's conclusion is based on</u>

<sup>2</sup> Exposure Draft of Proposed International Standard on Assurance Engagements ISAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*, available at

<sup>3</sup> *International Framework for Assurance Engagements*, paragraphs 7 and 11

<sup>4</sup> *International Framework for Assurance Engagements*, paragraphs 7 and 11

	<del>evidence-gathering procedures that are limited but sufficient to provide a basis for the conclusion.</del>
14	<p><b>Objectives</b></p> <p>The practitioner’s objectives in <del>conducting</del> a review of financial statements <u>under this ISRE</u> are <u>to</u>:</p> <p>(a) <del>To Obtain limited assurance about conclude, through performing primarily inquiry and analytical procedures, and evaluating the sufficiency and appropriateness of evidence obtained,</del> whether anything has come to the practitioner’s attention that causes the practitioner to believe the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework; and (Ref: Para. A8)</p> <p>(b) <del>To r</del>Report on the financial statements as a whole, and communicate as required by this ISRE.</p>
17(f)	<p><b>Definitions</b></p> <p>For purposes of this ISRE, the following terms have the meanings attributed below:</p> <p><u>Limited Assurance</u>—The level of assurance obtained where engagement risk is reduced to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement. (Ref: Para. A15)</p>
A15	<u>In a review engagement, the practitioner obtains sufficient appropriate evidence by performing procedures, primarily consisting of inquiry and analytical procedures, to reduce engagement risk to a level that is acceptable in the engagement circumstances as the basis for expressing a conclusion on the financial statements in accordance with this ISRE.</u>
85	<p><b>The Practitioner’s Report</b></p> <p><i>Communication of the Nature of a Review of Financial Statements</i></p> <p>The practitioner shall include in the report a description of the nature of a review of financial statements and its limitations, <del>including a statement and shall state</del> that: (Ref: Para. A135)</p> <p>(a) <del>In a</del> review engagement <u>under this ISRE is a limited assurance engagement,</u> <del>the practitioner performs procedures to obtain sufficient appropriate evidence as the basis for concluding on the financial statements as a whole;</del></p> <p>(b) The <u>practitioner performs</u> procedures, <del>performed primarily</del> <u>consisting primarily</u> of making inquiries of management and others within the entity involved in financial and accounting matters, <del>and applying analytical procedures, in relation to the financial statements and evaluates the evidence obtained;</del></p> <p>(c) ...</p>
App. 2	<p><b>Illustrative Practitioners’ Review Reports (Illustrative Reports #1-7)</b></p> <p>A review of financial statements in accordance with ISRE 2400 <u>is a limited assurance engagement. The practitioner performs procedures, consists</u> primarily <u>consisting</u> of making inquiries of management and others within the entity involved in financial and accounting matters, <u>and</u> applying analytical procedures, and <u>evaluating</u> the <del>sufficiency and appropriateness of</del> evidence obtained.</p>

9. It was also noted in the IAASB’s discussion in December 2011, however, that including a definition of limited assurance would not by itself address the issue raised by some respondents concerning the need for guidance for the practitioner to be able to judge when the work effort applied in an individual engagement is sufficient to be able to conclude in accordance with the ISRE. Several respondents<sup>5</sup> raised the point that there needs to be better explanation about how the practitioner

<sup>5</sup> AICPA, APB, BDO, CAASB, MIA Malta, IDW, KPMG, RSM  
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can judge whether enough has been done in a review engagement to be able to express a conclusion on the financial statements in the form required by the draft ISRE. (That is, ‘nothing has come to our attention that causes us to believe that these financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework, [or do not present fairly, in all material respect, where appropriate] ...’)

10. To respond to this issue, the Task Force proposes the amended application material shown below explaining further considerations relevant to the practitioner’s judgment in that area. (See Agenda Item 3-B.) Taken together with the proposed application material paragraphs A8 and A15 (shown above, concerning the concept of limited assurance as applied to a review engagement), the Task Force believes the application material in the draft ISRE is sufficient to guide the practitioner on the approach to be applied under the ISRE to reduce the engagement level to a level acceptable in the circumstances of an engagement, and allow the practitioner to conclude on the financial statements in accordance with the ISRE.

¶	(Proposed additions are shown as <u>underlined text</u> , deletions as <del>strike-through text</del> )
A86	<p><i>Designing and Performing Inquiry and Analytical Procedures</i></p> <p>[Revised] <u>The requirements of this ISRE relating to designing and performing procedures for the review are directed to achievement of the practitioner’s objectives for the engagement. A review engagement primarily involves performing inquiry and analytical procedures.</u> When designed and performed effectively in the light of the practitioner’s understanding as required in this ISRE, inquiry and analytical procedures performed are expected to:</p> <ul style="list-style-type: none"> <li>• Be sufficient for the practitioner to be able <del>to identify</del><u>address all material items in the financial statements, and focus on</u> areas in the financial statements where material misstatements are likely to arise; <del>and to design procedures to address those areas;</del> and</li> <li>• Provide an adequate basis for <u>the practitioner to be able to conclude a conclusion</u> on the financial statements as a whole <u>in accordance with this ISRE.</u></li> </ul>
A87	<p>[New] <u>Depending on the practitioner’s evaluation of the evidence obtained from the inquiry and analytical procedures performed, the practitioner may need to perform:</u></p> <p><u>(a) Further procedures, in accordance with paragraph 57, if the practitioner determines that the evidence obtained does not provide an adequate basis for concluding on the financial statements in accordance with this ISRE.</u></p> <p><u>(b) Additional procedures, in accordance with paragraph 58, if the practitioner becomes aware of a matter(s) that causes the practitioner to believe the financial statements may be materially misstated.</u></p> <p><u>The fact that the practitioner may deem it necessary to perform such procedures to achieve the practitioner’s objectives for the engagement does not alter the overall nature and purpose of the engagement. The practitioner’s conclusion on the financial statements is based on having obtained limited assurance in relation to the financial statements as a whole.</u></p>

**Matters for IAASB Consideration**

- Q1. (a) Does the IAASB support the proposed amended wording for the draft ISRE regarding the definition and explanation of “limited assurance” as applied to a review of financial statements?
- (b) Does the IAASB believe this proposed material, in combination with the explanation of the

approach to obtaining evidence, would better clarify, and provide sufficient context to, the requirements of the standard in a way that would help the practitioner understand how to achieve the objectives for the engagement?

#### **A.1 Evidence-Based Nature of the Engagement Performed in Accordance with ISRE 2400**

10. Respondents held different views about the position reflected in ED-2400 that the practitioner's conclusion in a review engagement is based on obtaining sufficient appropriate evidence as set out in the requirements and application material.
11. Many respondents<sup>6</sup> believed use of the term sufficient appropriate evidence in the ISRE, and specifically in the illustrative reports, could create a misperception about the basis for the conclusion expressed in a review engagement, which must always be clearly communicated as being limited assurance. These respondents believed that use of the term in the context of a review engagement is confusing, or would blur the distinction between a review and an audit, and should not be used. Further, as noted above, a few respondents<sup>7</sup> commented that, since the term is associated with audit engagements through its use in the ISAs, using the same term in the draft ISRE could cause practitioners to undertake more work than is required given the limited assurance nature of the engagement.
12. Another respondent<sup>8</sup> expressed the view that references to obtaining sufficient appropriate evidence are not appropriate in the ISRE since, in this respondent's view, the practitioner's conclusion in the review engagement is not based on evidence but rather on performing procedures.
13. The majority of respondents<sup>9</sup>, however, believed that the proposed ISRE 2400 will result in engagements that can be understood and performed by practitioners in a cost-effective manner in a way that clearly distinguishes the engagement from an audit. Implicitly (as no specific question was asked on this issue in ED-2400), these respondents were satisfied with the approach reflected in ED-2400 of obtaining evidence, through performing the procedures required in the ISRE, and evaluating the evidence obtained therefrom, as the basis for forming a conclusion on the financial statements. These respondents did not raise objection to the need for the evidence obtained to be sufficient and appropriate for the purpose of a review engagement.
14. A respondent<sup>10</sup> specifically cautioned against giving undue emphasis to the procedures performed in a review, rather than the evidence obtained, and noted that the concept of sufficient appropriate evidence is central to all types of assurance engagements. Several respondents<sup>11</sup> believed an explanation of how the term is intended to be applied in the context of a review engagement would help to mitigate the risk of confusion given the perception that practitioners are more familiar with its use in an audit engagement.

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<sup>6</sup> APB, AUASB, BHD, CGA, CAASB, DTT, GT, ICAP, IDW, KPMG, NBA, OCAQ, IRBA

<sup>7</sup> KPMG, APB,

<sup>8</sup> OCAQ

<sup>9</sup> AG-NZ, ACCA, AUASB, AICPA, BDO, BHD, CALCPA, CAASB, DTT, Evansmartin, GT, IBRACON, ICAEW, ICAP, ICPAK, ICPAS, IDW, IFAC SMPC, JICPA, MIA-MICPA, MNP, OCAQ, PWC, RSM, SAICA, ZICA

<sup>10</sup> AICPA

<sup>11</sup> APB, Evansmartin, FSR, GT, IDW, JICPA, KPMG, MIA Malta, NZICA, RSM, SAICA

### *Task Force Recommendation*

15. The Task Force recommends that use of the term sufficient appropriate evidence in appropriate places throughout the ISRE be retained. This includes use of the term in the statement of the practitioner's objectives, the requirements addressing performance of the engagement and forming a conclusion, and the reporting requirements and the illustrative reports.
16. With regard to respondents who did not believe the review engagement involves obtaining evidence as the basis for expressing the conclusion, the Task Force unanimously disagrees that the practitioner's objectives for a review engagement can be achieved on the strength of performing procedures alone. That would fundamentally alter the nature of the engagement.
17. In line with the extant and proposed Assurance Framework, which clarifies that all assurance engagements are evidence-based, the Task Force unanimously believes the draft ISRE needs to be clear that the engagement involves obtaining sufficient appropriate evidence as the basis for expressing a conclusion on the financial statements in accordance with the ISRE. That is, evidence that is sufficient and appropriate to be able to conclude that nothing has come to the practitioner's attention that causes the practitioner to believe the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework (or are not presented fairly ..., where appropriate).
18. The Task Force recognizes that a key distinguishing factor of the review engagement is that the engagement is defined, in part, by use of primarily inquiry and analytical procedures to derive the basis for concluding on the financial statements. What is important is that practitioners performing a review understand the intended meaning of the phrase sufficient appropriate evidence as used in the context of a limited assurance engagement, and that the nature and extent of the procedures performed in an individual review engagement provide a sufficient basis for obtaining the evidence needed to be able to form a conclusion. In line with the proposed definition of proposed limited assurance those procedures should be sufficient and appropriate to reduce the engagement risk to a level that is acceptable in the engagement circumstances.
19. The Task Force believes the proposed additional application material relating to the definition of limited assurance in a review engagement will be particularly useful in that regard (i.e. proposed paragraph A15 in the amended draft ISRE – as shown above). This application material will make it clear how the term sufficient appropriate evidence should be interpreted in a review of financial statements. By linking the term with the proposed definition of limited assurance in the amended draft ISRE, specifically to the key objective of reducing of engagement risk to a level that is acceptable in the engagement circumstances, practitioners will have a basis for applying their professional judgment to determine when the evidence obtained is sufficient and appropriate, and therefore to be able to form a conclusion on the financial statements.

#### **Matter for IAASB Consideration**

- Q2. Does the IAASB agree with the Task Force's proposed recommendation to retain use of the term "sufficient appropriate evidence" in the ISRE, and with the reasons for doing so explained above?

**B. The Practitioner’s Competency in Assurance Skills and Techniques**

20. As discussed at the December 2011 IAASB meeting, several respondents<sup>12</sup> believed that proper performance of the requirements of ED-2400 will necessarily require the competencies of a skilled assurance practitioner. These respondents believed the quality of review engagements will be significantly enhanced if the practitioner performing a review engagement possesses competencies in assurance skills and techniques.
21. The majority of IAASB members believed the ISRE can be further strengthened by including a requirement that the practitioner performing a review engagement under ISRE 2400 be competent in the use of assurance skills and techniques.

*Task Force Recommendations*

22. The Task Force proposes to include a definition of the term “assurance skills and techniques” in the amended draft ISRE, together with application material to further explain the context for use of the term in the standard. The defined term and related application material has been developed from the draft wording of ED-3000, which was developed to serve a similar purpose.
23. The Task Force also recommends the inclusion of a new engagement-level quality control requirement, to make it explicit that the engagement partner who has responsibility for the overall quality of the engagement performed, is required to possess competencies in assurance skills and techniques.
24. The Task Force believes that, taken together, these recommended amendments will further strengthen the ISRE by making it clear that the achievement of the practitioner’s objectives for a review, and the overall quality of a review engagement, would require the practitioner performing the review to be a competent assurance practitioner.
25. Amendments to the draft ISRE proposed by the Task Force are shown below. (See Agenda Item 3-B)

¶	(Proposed additions are shown as <u>underlined text</u> , deletions as <del>strike-through text</del> )
17(b)	<u>Assurance skills and techniques—Those planning, evidence gathering, evidence evaluation and reporting skills and techniques distinct from expertise in financial reporting. (Ref: Para. A14)</u>
A14	<p><u>Assurance skills and techniques include:</u></p> <ul style="list-style-type: none"> <li>• <u>Application of professional skepticism and professional judgment to planning and performing an assurance engagement, including obtaining and evaluating evidence;</u></li> <li>• <u>Understanding information systems and the role and limitations of internal control;</u></li> <li>• <u>Linking the consideration of materiality and engagement risks to the nature, timing and extent of procedures;</u></li> <li>• <u>Applying procedures as appropriate to the engagement, which may include inquiry, inspection, re-calculation, re-performance, observation, confirmation, and analytical procedures;</u></li> <li>• <u>Systematic documentation practices; and,</u></li> <li>• <u>Application of skills and practices relevant for writing reports for assurance engagements.</u></li> </ul>

<sup>12</sup> AUASB, CGA, CICPA, ICAEW, IRBA, SAICA AG-NZ;

24	<u>The engagement partner shall possess competencies in assurance skills and techniques, and expertise in financial reporting.</u>
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### Matter for IAASB Consideration

Q3. Does the IAASB agree with the Task Force's proposed amendments intended to strengthen the performance of review engagements? If not, what alternative amendments would best respond to comments received on this issue?

### C. The Approach to Designing the Work Effort for the Review, and Performing the Review

26. Respondents<sup>13</sup> broadly supported the approach outlined in ED-2400 to performing a review engagement, including designing and performing the procedures (inquiry and analytical procedures, reconciling the financial statements to the underlying accounting records, and procedures addressing specific circumstances), and evaluating the evidence obtained from the procedures performed in order to express a conclusion on the financial statements.
27. However, the respondents to ED-2400 did provided specific comments in the following areas:
- (a) The requirement for the practitioner to obtain an understanding of the entity and its environment, including the entity's accounting system and accounting records relevant to the review, sufficient to identify areas of the financial statements where material misstatement is likely to arise, and to be able to design procedures to address those areas (Agenda Item 3-B ¶45, and C.2 below.)
  - (b) Designing and performing analytical procedures – with respect to the requirement to design and perform inquiry and analytical procedures to address all material items in the financial statements, and to focus on addressing areas in the financial statements where material misstatement is likely to arise; (Agenda Item 3-B ¶46, and C.3 below.)
  - (c) The requirement to perform further procedures when the practitioner considers, on evaluating the evidence obtained from the procedures already performed (i.e. inquiry and analytical procedures, procedures addressing specific circumstances, reconciling the financial statements to the underlying records), that the evidence obtained is insufficient to form a conclusion on the financial statements, and therefore performs further procedures in order to obtain sufficient appropriate evidence to be able to conclude on the financial statements (Agenda Item 3-B ¶57, and C.4 below); and
  - (d) The requirement to perform additional procedures when the practitioner becomes aware of matters that cause the practitioner to believe the financial statements may be materially misstated (Agenda Item 3-B ¶58, and C.5 below).
28. These requirements taken together are the key phases in designing the work effort to achieve the practitioner's objectives for the engagement and performing the review.

<sup>13</sup> AG-NZ; AICPA; SC-AOB; CALCPA; DTT; EFAA; GT; HKICPA; IBRACON; ICAEW; ICAS; ICPAK; IFAC SMPC; JICPA; KPMG; MIA-MICPA; MIA Malta; MNP; OCAQ; PwC; RSM; SAICA; ZICA

## C.1 Overarching Comments

29. Many respondents provided overarching comments addressing the different phases of a review engagement in the overall context of limited assurance engagements and the goal of achieving a meaningful outcome in a review engagement.
30. Several respondents<sup>14</sup> believed the different elements in performance of the review need to be presented more clearly, including clearly explaining relationships between different phases in the performance of the review, and how they contribute to achievement of the practitioner's objectives for the engagement.
31. Some respondents<sup>15</sup> raised the specific concern of the risk that practitioners may inadvertently do too much in a review, thus undermining the relative cost-effectiveness of a review engagement. Some other respondents<sup>16</sup> believed the requirements do not sufficiently distinguish the work effort required for a review engagement from that required for an audit engagement.
32. Respondents' comments on each of these aspects of the engagement are presented in more detail below, in sub-sections C.2 to C.5.

### *Task Force Recommendations*

33. The Task Force proposes that, for better communication of the overall context for the approach to designing and performing the procedures for a review, the requirements addressing the performance of procedures should be more clearly linked to the practitioner's objective for the engagement, and the overall limited assurance nature of the engagement.
34. The Task Force believes the proposal to include the defined term "limited assurance" in the ISRE (see discussion in A above), in the statement of the practitioner's objectives and in appropriate places throughout the requirements and application material of the draft ISRE, will be helpful to provide the overall context for designing and performing procedures for a review. It will aid practitioners' understanding of how, taken together, these various requirements on procedures to be performed contribute to achievement of the practitioner's objectives for the engagement and deliver the limited assurance basis for the practitioner's conclusion on the financial statements. (See Agenda Item 3-B ¶5 and A14, 14, 17(f) and A15, 85(a) and A87, and Appendix 2, Illustrative Reports.)

## C.2 Specific Comments – Obtaining an Understanding Sufficient to Identify Areas in the Financial Statements where Material Misstatement is likely to Arise

35. Respondents' comments on the requirements explaining that the practitioner's understanding of the entity and its environment, etc. guides the design and performance of the inquiry and analytical procedures were rather divergent.
36. Roughly half of the respondents<sup>17</sup> agreed with the requirement to obtain an understanding sufficient to identify areas in the financial statements where material misstatement is likely to arise, and then to design and perform inquiry and analytical procedures with a focus on those areas.

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<sup>14</sup> APB, BDO, CAASB, CNDCEC, CNCC, FSR, GT, ICPAK, IRBA, JICPA

<sup>15</sup> APB, EFAA, HCA, MIA Malta

<sup>16</sup> BDO, BHD, FEE, GT, KPMG, MIA Malta

<sup>17</sup> AG-NZ, AUASB, BHD, CGA, CAASB, CMA, CNDCEC, SC-AOB, GT, ICPAS, ICAP, ICPAK, IFAC SMPC, JICPA, MIA Malta, MIA-MICPA, OCAQ, RSM, PwC, DTT, Evansmartin, EFAA, IRBA, SAICA

37. Several respondents<sup>18</sup> believed further guidance or clarification is needed for this requirement to guide the design of the practitioners' work effort for the review. Two respondents<sup>19</sup> expressed the view that the requirement, as worded in ED-2400 could cause the planned procedures for a review to be directed at too high a level of risk of material misstatement (increasing the risk that the practitioner could express an inappropriate conclusion).
38. Some respondents<sup>20</sup> considered that the requirement to identify areas in the financial statements where material misstatement is likely to arise is an implied requirement to undertake a risk assessment, as the basis for designing and performing the procedures for the review. Some other respondents<sup>21</sup> believed that a clear, explicit requirement to perform a risk assessment, explained for the context of a review engagement, would be appropriate.

#### *Task Force Recommendation*

39. In developing ED-2400 the IAASB discussed extensively the question of whether a risk assessment is necessary or appropriate in a review engagement. The position reflected in ED-2400 is that a formal risk assessment is not necessary, and that what rather needs to be clearly conveyed to practitioners is that the procedures selected and designed should focus on areas of the financial statements where, based on the practitioner's understanding, material misstatement is likely to arise. The IAASB believed, in exposing ED-2400, that, in view of the limited nature of a review engagement, this would be sufficient to appropriately guide the practitioner's work effort. The IAASB also acknowledged that use of references to risk or risk assessment would have the effect of blurring the distinction between a review and an audit.
40. The Task Force believes the additional context provided by use of the term "limited assurance" in the draft ISRE (discussed in section A above), will assist practitioners' understanding of the approach that underpins this requirement. Accordingly the Task Force recommends that the relevant requirement in the draft ISRE addressing this aspect of the review engagement should not be changed. (See Agenda Item 3-B, paragraph 45.)
41. The Task Force also does not believe that explicit reference to the use of risk assessment in the draft ISRE would be either appropriate or helpful, or that it would further clarify the requirements of the draft ISRE if it were referenced in the application material. If that were done, it would require an explanation about how, and to what extent, a risk assessment should be performed in the context of a review, and how that would differ from the situation of an audit. The Task Force does not believe such explanations would necessarily be sufficiently clear or effective, practically speaking.
42. Regarding respondents who believed further guidance is needed to explain or clarify the intended approach, the Task Force believes that the proposed requirement for the practitioner to possess competencies in assurance skills and techniques (discussed in section B above) is an important factor in promoting consistency of practice in this area. Identification and assessment of risk, and particularly risk of material misstatement in the context of financial reporting, is a generic component of all assurance engagements. Notwithstanding, that the treatment of this area in a review under the draft ISRE is not as highly specified as it is for an audit engagement under the ISAs, in the Task Force's view the practitioner with such competencies will be guided sufficiently

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<sup>18</sup> AG-NZ, BDO, CALCPA, CAASB, GT, HCA, IDW, IFAC SMPC, IRBA, KPMG, PwC

<sup>19</sup> FEE, HCA

<sup>20</sup> BHD, CGA, CALCPA, SAICA

<sup>21</sup> AAP, CAASB, FEE, NBA, NZICA

well by the requirements and guidance of the ISRE to be able to properly perform the engagement in a manner that meets the practitioner's objectives.

**Matter for IAASB Consideration**

- Q4. Does the IAASB agree with the Task Force's recommendation above addressing the requirements and guidance in the draft ISRE concerning identification of areas in the financial statements where material misstatement is likely to arise?

**C.3 Designing and Performing Analytical Procedures**

43. Several respondents<sup>22</sup> expressed the view that the draft ISRE should specify the types of analytical procedures to be performed in a review, and the purpose of using those procedures in the review engagement. A few respondents<sup>23</sup> thought the differences between analytical procedures performed to obtain evidence in a review and analytical procedures performed in an audit need to be explained in the ISRE.

*Task Force Recommendation*

44. The Task Force recognizes that practitioners may desire greater specificity and guidance in the ISRE concerning performance of analytical procedures. However, the Task Force also recognizes that there is no one set of analytical procedures or, in fact, any one single procedure that it suited to every engagement to review financial statements.
45. The Task Force believes that a practitioner who possesses competency in assurance skills and techniques will be able to apply that competency in the context of different assurance engagements, guided by the requirements of the ISRE and their professional judgment.
46. Further, there is also need to maintain an overall balance in the structure and content of the ISRE. The Task Force believes that as the key requirements and related guidance for analytical procedures in a review are already in the draft ISRE, development of further guidance and examples about application of analytical procedures in a review engagement would best be left as something best addressed in implementation materials developed to support adoption and implementation of the ISRE in national jurisdictions.
47. Accordingly, the Task Force does not recommend that the ISRE itself should address the perceived need some respondents pointed to for more guidance on the use and application of analytical procedures in a review engagement.

**Matter for IAASB Consideration**

- Q5. Does the IAASB agree with the Task Force's recommendation above?

<sup>22</sup> ACCA, AG-NZ, FEE, GT, HCA, ICPAK, NBA, NZICA, SAICA

<sup>23</sup> FEE, HCA, JICPA

#### C.4 Performing Further Procedures

48. A few respondents<sup>24</sup> believed it important that the requirement to undertake further procedures (when the practitioner considers the evidence obtained from procedures already performed does not provide a sufficient basis to form a conclusion on the financial statements) be more clearly distinguished from the requirement to perform additional procedures (when the practitioner has cause to believe the financial statements may be materially misstated), in the draft ISRE.

##### *Task Force Recommendations*

49. The Task Force agrees that the draft ISRE needs to be clearer in presenting these two different situations that could occur in a review engagement. They can also be better explained to promote practitioners' understanding of each situation, and what is needed to address them.
50. Regarding the need to perform further procedures, the key points that need to be made clearly in the draft ISRE are that:
- The practitioner may believe that inquiry and analytical procedures and procedures performed addressing specific circumstances have not yielded sufficient appropriate evidence to be able to form a conclusion on the financial statements (even if the practitioner has not become aware of any matters that cause the practitioner to believe that the financial statements may be materially misstated). In this case the practitioner is required to design and perform further procedures so as to achieve the practitioner's objective for the engagement. This occurs when the procedures already performed do not yield the expected quality or quantity of evidence.
  - The further procedures can be whatever types of procedures the practitioner believes will best yield the evidence required in the particular circumstances (i.e. not limited to inquiry and analytical review), so that the practitioner will be able to form a conclusion on the financial statements.
  - Even if the further procedures include procedures other than inquiry and analytical procedures, that does not alter the nature of the review engagement as a limited assurance engagement.
51. The Task Force proposes amendments to the draft ISRE, including additional application material designed to clarify the practitioner's understanding of the context for, when necessary, performing further procedures.
52. The practitioner's consideration about when further procedures may be needed requires the exercise of professional judgment. The Task Force believes the proposed requirement for the practitioner to possess competencies in assurance skills and techniques (see discussion in section B above) is critical to promote a broadly consistent approach by practitioners undertaking reviews in different engagement settings.
53. Amendments to the draft ISRE proposed by the Task Force are shown below. (See Agenda Item 3-B)

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<sup>24</sup> APB, JICPA

¶	(Proposed additions are shown as <u>underlined text</u> , deletions as <del>strike-through text</del> )
57	<p><u><i>Evaluating Evidence Obtained from Procedures Performed</i></u></p> <p>The practitioner shall evaluate the sufficiency and appropriateness of the evidence obtained from the inquiry and analytical procedures performed <u>and from the procedures performed addressing specific circumstances. If the practitioner considers it is necessary in the circumstances, the practitioner shall perform further procedures, as appropriate, to obtain sufficient appropriate evidence in order to be able to form a conclusion on the financial statements.</u> (Ref: Para. A87, A101–A102)</p>
A87	<p><u><i>Designing and Performing Inquiry and Analytical Procedures</i></u></p> <p><u>Depending on the practitioner’s evaluation of the evidence obtained from the inquiry and analytical procedures performed, the practitioner may need to perform:</u></p> <p><u>(c) Further procedures, in accordance with paragraph 57, if the practitioner determines that the evidence obtained does not provide an adequate basis for concluding on the financial statements in accordance with this ISRE.</u></p> <p><u>(d) Additional procedures, in accordance with paragraph 58, if the practitioner becomes aware of a matter(s) that causes the practitioner to believe the financial statements may be materially misstated.</u></p> <p><u>The fact that the practitioner may deem it necessary to perform such procedures to achieve the practitioner’s objectives for the engagement does not alter the overall nature and purpose of the engagement. The practitioner’s conclusion on the financial statements is based on having obtained limited assurance in relation to the financial statements as a whole.</u></p>
A101	<p><u>The requirement to perform further procedures is always directed to achieving the practitioner’s objectives for the review engagement. The fact that the practitioner may perform procedures other than inquiry and analytical procedures does not alter the overall nature and purpose of the engagement.</u></p>
A102	<p><u>For example, the practitioner may decide to perform further procedures to verify management’s assertions for a material account balance or transaction reflected in the financial statements if, in the particular engagement circumstances, the practitioner considers the evidence obtained from the procedures already performed (inquiry and analytical procedures, reconciling the financial statements to the underlying accounting records, and procedures addressing specific circumstances) is not sufficient to be able to conclude on the financial statements as a whole. Examples of further procedures include obtaining an external confirmation of an account balance from a third party, or carrying out a physical inspection of a material asset.</u></p>

**Matter for IAASB Consideration**

Q6. Does the IAASB agree with the Task Force’s proposed amendments to better clarify the requirement to perform further procedures in a review engagement, in context of the overall approach to the engagement as set out in the draft ISRE?

**C.5 Performing Additional Procedures When the Practitioner Has Cause to Believe the Financial Statements may be Materially Misstated**

54. In the IAASB’s discussion of this topic in December 2011, it was noted that the majority of respondents<sup>25</sup> agreed with the requirement to perform additional procedures as stated in ED-2400.

<sup>25</sup> AG-NZ, AICPA, SC-AOB, CALCPA, CAASB, DTT, EFAA, Evansmartin, GT, HKICPA, IBRACON, ICAEW, ICAS, ICAPAK, ICPAS, IFAC SMPC, IRBA, JICPA, KPMG, MIA Malta, MIA MICPA, MNP, OCAQ, PwC, RSM, SAICA, ZICA

However, several respondents raised the question whether there is sufficient guidance in the draft ISRE for practitioners to understand the types of situations that would require the practitioner to perform additional procedures<sup>26</sup>, and whether there is sufficient explanation and guidance about how the practitioner is expected to respond.<sup>27</sup>

55. ED-2400 stated the following requirement (paragraphs 57 - 58):

If the practitioner becomes aware of a matter(s) that causes the practitioner to believe the financial statements may be materially misstated, the practitioner shall design and perform additional procedures sufficient to enable the practitioner to:

- (a) Conclude that the matter(s) is not likely to cause the financial statements as a whole to be materially misstated; or
- (b) Determine that the matter(s) causes the financial statements as a whole to be materially misstated,

the practitioner shall evaluate the results obtained from the additional procedures performed to determine the effect on the practitioner's report.

A few respondents<sup>28</sup> suggested that the application material in the ISRE could be improved by including some examples of situations where the practitioner would need to consider whether this conditional requirement applies, to facilitate practitioners' understanding of what conditions would make the requirement applicable, and how the practitioner would design the appropriate response to address the situation in accordance with the ISRE.

56. Respondents generally recognized that the practitioner's response in undertaking additional procedures requires the exercise of professional judgment to design procedures that enable the practitioner to either conclude that the financial statements are not likely to be materially misstated, or to determine that the financial statements are materially misstated. Particularly in relation to the latter situation, however, several respondents<sup>29</sup> questioned whether the performance of additional procedures would be perceived as leading to a reasonable level of assurance as the basis for concluding, and whether that fundamentally alters the nature of the review engagement performed so that it would be perceived as being, de facto, indistinguishable from an audit engagement.

#### *Task Force Recommendations*

57. The Task Force agrees that it is important to:

- (a) Make the conditional nature of the requirement to perform additional procedures as clear as possible to readers of the ISRE, and
- (b) Provide examples in the draft ISRE that will assist practitioners' understanding of situations when the requirement to apply additional procedures would apply.

58. A member of the Task Force emphasized that the perceived ambiguity in this requirement of ED-2400 could significantly undermine the consistency of performance of review engagements. Further, it may cause the draft ISRE to be fundamentally misaligned with the existing review engagement as performed in practice, particularly if practitioners believe they are effectively being required to undertake some form of additional procedures in every review engagement.

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<sup>26</sup> APB, AUASB, ICPAK

<sup>27</sup> APB, AUASB, CAASB, ICAP, MNP, ZICA

<sup>28</sup> AUASB, NBA

<sup>29</sup> ACCA, AUASB, BHD, ICAEW, IRBA, NZICA, RSM, SAICA

59. The conditional nature of the requirement to perform additional procedures is important. Being clear that it is conditional in the draft ISRE will remove the misperception that the requirement applies in every review engagement, and the perception of some respondents that it applies more often than not. Further, it will help reinforce the difference between a review engagement and an audit engagement.
60. The Task Force believes the important explanations needed to enhance practitioner’s understanding of when additional procedures are required, and to promote consistency among practitioners in responding to that situation, are:
- (a) The requirement pertaining to additional procedures only applies when the practitioner *has cause to believe* the financial statements may be materially misstated (the condition that triggers the requirement in the ISRE). The requirement is a specific response to a condition that is not expected to arise in every review engagement. Accordingly, something has to arise in the course of a review engagement to indicate that the condition exists, and conversely if nothing arises indicating the condition exists then the requirement is not applicable.
  - (b) Once it is established that the condition exists, the next consideration for the practitioner is what type or extent of response is required under the ISRE.
  - (c) It must be clear in the ISRE that the practitioner’s response in undertaking additional procedures with respect to an item the practitioner has cause to believe may be materially misstated in the financial statements will depend on the circumstances and is very much a matter of professional judgment. There is no single set of additional procedures that can be specified in the draft ISRE. Rather the practitioner is required to assess the situation in each individual engagement to decide how to best obtain the evidence needed to be able to form a conclusion on the financial statements as a whole.
  - (d) The requirements of the ISRE guide the nature and extent of the practitioner’s response in situations that warrant undertaking additional procedures. The ISRE specifies that a higher level of evidence is needed to support a determination that the financial statements are materially misstated (i.e. a higher level of evidence than would otherwise apply to obtain limited assurance). That is because in this situation the practitioner will state the conclusion in the report that, based on the review performed, the practitioner concludes that financial statements are materially misstated.
61. Accordingly, the Task Force proposes additional application material to include these further explanations and guidance in the draft ISRE. The amendments to the draft ISRE proposed by the Task Force are shown below. (See Agenda Item 3-B)

¶	(Proposed additions are shown as <u>underlined text</u> , deletions as <del>strike-through text</del> )
A103	<u>Additional procedures are only required under this ISRE if the practitioner becomes aware of a matter that causes the practitioner to believe the financial statements may be materially misstated</u>
A104	<u>The practitioner’s response in undertaking additional procedures with respect to an item the practitioner has cause to believe may be materially misstated in the financial statements will vary, depending on the circumstances, and is a matter for the practitioner’s professional judgment.</u>
A105	<u>The practitioner’s judgment about the nature, timing and extent of additional procedures that are needed to obtain evidence to either conclude that a material misstatement is not likely, or determine that a</u>

	<p><u>material misstatement exists, is guided by:</u></p> <ul style="list-style-type: none"> <li>• <u>Information obtained from the practitioner’s evaluation of the results of the procedures already performed;</u></li> <li>• <u>The practitioner’s updated understanding of the entity and its environment obtained throughout the course of the engagement;</u></li> <li>• <u>The practitioner’s perception of the level of risk of material misstatement that the matter poses in the context of the financial statements as a whole, and the practitioner’s professional judgment of the evidence needed to adequately address the identified risk.</u></li> </ul> <p><u>For example, if something causes the practitioner to believe the financial statements may be materially misstated, the nature and extent of additional procedures applied as the practitioner’s response will depend on the practitioner’s perception of the risk of material misstatement. The nature and extent of the practitioner’s response is also conditioned by the requirements of this ISRE. For example, in order to express an adverse conclusion on the financial statements the practitioner must have obtained sufficient appropriate evidence to determine that the financial statements are materially misstated to support giving that conclusion.</u></p>
A106	<p><u>Additional procedures focus on addressing the items the practitioner has cause to believe may be materially misstated. The procedures may be:</u></p> <ul style="list-style-type: none"> <li>• <u>Additional inquiry or analytical procedures, for example, being performed in greater detail or being focused on the affected items (i.e. amounts or disclosures concerning the affected accounts or transactions as reflected in the financial statements); or</u></li> <li>• <u>Other types of procedures, for example, substantive tests of details or external confirmations.</u></li> </ul>
A107	<p><u>The following examples illustrate situations where the practitioner would need to consider whether the requirement to perform additional procedures applies in the circumstances of an individual review engagement, and the practitioner’s response:</u></p> <ul style="list-style-type: none"> <li>• <u>A practitioner may perceive, in relation to a number of individual items the practitioner has cause to believe may be misstated, that there is a relatively low risk that those items, in aggregate, would cause the financial statements as a whole to be materially misstated. In light of the practitioner’s perception of the risk of material misstatement in relation to the financial statements as a whole, the practitioner would be able to conclude that those items are not likely to cause the financial statements as a whole to be misstated.</u></li> <li>• <u>An analysis of the gross margin may indicate a relatively high risk of material misstatement in cost of goods sold or sales. In this case, the practitioner would design and perform additional procedures to obtain sufficient appropriate evidence to be able to either conclude that either or both the cost of goods sold and sales are not materially misstated, or determine they are materially misstated.</u></li> </ul>

**Matter for IAASB Consideration**

Q7. Does the IAASB agree with the Task Force’s proposed amendments to better explain the conditional requirement to perform additional procedures in a review engagement performed under the draft ISRE? Does the IAASB believe the examples illustrate the application of this requirement of the ISRE sufficiently?

### **Other Drafting Revisions to the Proposed ISRE**

62. **Agenda Item 3-B** provides a marked-up version of the proposed ISRS from ED-2400 showing all of the Task Force's suggested revisions arising from its full review of the responses received.
63. The revisions reflect:
  - (a) Proposals discussed at the IAASB's discussion in December as well as those relating to the remaining significant issues presented in this Issues Paper; and
  - (b) Further drafting changes proposed by the Task Force to improve the clarity and understandability of the proposed ISRS, including drafting suggestions provided by ED-2400 respondents.

## Appendix

### List of Respondents to the ED-2400

[Electronic copies of responses received are available at:

<http://www.ifac.org/publications-resources/proposed-international-standard-review-engagements>]

#	Abbreviation	Respondent (Total = 49)
<b>IFAC Boards and Committees (1)</b>		
1.	IFAC DNC/SMPC	SMP and DNC Committees
<b>IFAC Member Bodies and Other Professional Bodies (26)</b>		
2.	AAP	The Joint Accounting Bodies – Australian Accounting Profession (CPA Australia, The Institute of Chartered Accountants in Australia, and the National Institute of Accountants)
3.	ACCA	Association of Chartered Certified Accountants
4.	CALCPA	California Society of Certified Public Accountants – Accounting Principles and Auditing Standards Committee
5.	CGA	Certified General Accountants Association of Canada
6.	CICPA	Chinese Institute of Certified Public Accountants
7.	CMA-Canada	The Society of Management Accountants of Canada
8.	CNDCEC	Consiglio Nazionale dei Dottori Commercialisti e Consiglio Nazionale degli Esperti Contabili
9.	EFAA	European Federation of Accountants and Auditors for SMEs
10.	FAR	Institute for the Accountancy Profession in Sweden
11.	FEE	Federation of European Accountants
12.	FSR	Foreningen af Statsautoriserede Revisorer
13.	HCA	Chamber of Hungarian Auditors
14.	IBRACON	Instituto dos Auditores Independentes do Brasil
15.	ICAEW	The Institute of Chartered Accountants in England and Wales
16.	ICAP	Institute of Chartered Accountants of Pakistan
17.	ICAS	The Institute of Chartered Accountants of Scotland
18.	ICJCE	Instituto de Censores Jurados de Cuentas de España
19.	ICPAS	Institute of Certified Public Accountants of Singapore
20.	ICPAK	Institute of Certified Public Accountants of Kenya
21.	JICPA	The Japanese Institute of Certified Public Accountants
22.	MIA MALTA	The Malta Institute of Accountants
23.	MIA-MICPA	Malaysian Institute of Accountants
24.	OCAQ	Ordre des comptables agréés du Québec
25.	SAICA	The South African Institute of Chartered Accountants
26.	ZICA	Zambia Institute of Chartered Accountants
<b>National Standard Setters (10)</b>		
27.	AICPA	American Institute of Certified Public Accountants
28.	APB	Auditing Practices Board (United Kingdom)
29.	AUASB	Australian Auditing and Assurance Standards Board
30.	CAASB	The Canadian Auditing and Assurance Standards Board
31.	CNCC-CSOEC	Compagnie Nationale des Commissaires aux Comptes + Conseil Supérieur de l'Ordre des Experts-Comptables
32.	HKICPA	Hong Kong Institute of Certified Public Accountants

33.	IDW	Institut der Wirtschaftsprüfer in Deutschland
34.	IRBA	Independent Regulatory Board for Auditors
35.	NBA	Nederlandse Beroepsorganisatie van Accountants
36.	NZICA	New Zealand Institute of Chartered Accountants - Professional Standards Board
<b>Regulators and Oversight Authorities (1)</b>		
37.	SC-AOB	Securities Commission Malaysia - Audit Oversight Board
<b>Public Sector Audit Authorities (1)</b>		
38.	AG-NZ	Office of the Auditor-General of New Zealand
<b>Firms (9)</b>		
39.	BDO	BDO International Limited
40.	BHD Group	BHD Group Limited
41.	DTT	Deloitte Touche Tohmatsu Ltd
42.	EvansMartin	EvansMartin LLP
43.	GT	Grant Thornton International Ltd
44.	KPMG	KPMG IFRG Ltd
45.	MNP	Meyers Norris Penny LLP
46.	PwC	PricewaterhouseCoopers LLP
47.	RSM	RSM International
<b>Individuals and Others (2)</b>		
48.	J. Maresca	Dr. Joseph S. Maresca, CPA, CISA
49.	SRA	SRA – Netherlands