

Engagements to Review Financial Statements— IAASB Task Force Recommendations in Response to IAASB’s Consideration of Significant Issues on Exposure

Introduction

1. This Paper sets out the Task Force’s recommendations on remaining issues arising from the IAASB’s consideration of respondents’ comments on the Exposure Draft of proposed ISRE 2400¹ (Revised) (ED-2400) at the March 2012 Board meeting.
2. The issues, and Task Force’s recommendations, addressed in this Paper are:
 - (i) Clarifying the requirements and application material in the draft ISRE on performing procedures in addition to inquiry and analytical procedures, and procedures addressing specific circumstances;
 - (ii) The description of the review engagement in the practitioner’s report; and
 - (iii) In relation to proposed ISRE 2400 and ISRE 2410²:
 - (i) Clarifying the scope of ISRE 2400 versus that of ISRE 2410.
 - (ii) Distinguishing ISRE 2400 engagements from ISRE 2410 engagements through the report.
3. In preparing the proposed ISRE for the IAASB’s consideration, the Task Force also carried out a detailed editorial review to improve its clarity, understandability and readability. A number of the drafting changes shown in Agenda Item 2-B result from that exercise.

Significant Issues

- A. Performing Procedures in an ISRE 2400 Review Engagement In Addition to Inquiry and Analytical Procedures, and Procedures Addressing Specific Circumstances**
4. ED-2400 and the March 2012 draft revised ISRE 2400 contained proposed requirements for the practitioner to perform additional or further procedures whenever the following circumstances exist in a review engagement:
 - (i) If the practitioner becomes aware of anything that causes the practitioner to believe the financial statements may be materially misstated.
 - (ii) If, on evaluating the results of the procedures performed, the practitioner considers further procedures are necessary to be able to form a conclusion on the financial statements (i.e. the planned inquiry and analytical procedures did not yield the level of evidence the practitioner expected to obtain).

¹ Proposed ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*

² ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

The proposed requirements are conditional, in that the practitioner is required to extend work effort when these circumstances exist in order to be able to form a conclusion on the financial statements.

5. The March 2012 IAASB discussions highlighted the need for the draft ISRE to be clearer about the conditions when the practitioner is required to perform procedures in addition to inquiry and analytical procedures and the procedures addressing specific circumstances. The IAASB also questioned whether the practitioner is required to consider the need to undertake additional or further procedures when designing the procedures for the review and when evaluating the evidence obtained from the procedures performed, or only when evaluating the evidence obtained from the procedures performed.

Task Force Recommendations

6. Notwithstanding that a review engagement comprises primarily inquiry and analytical procedures, at any stage of the engagement the practitioner may design and perform additional or further procedures as judged necessary to be able to form a conclusion on the financial statements.
7. In particular, if either of the circumstances outlined in paragraph 5 above exist, the practitioner is required to expand the work effort for the review, to be able to conclude.
8. The draft ISRE emphasizes the iterative nature of a review of financial statements. The requirements to obtain the necessary understanding, perform procedures, and obtain evidence, form an iterative process in which the practitioner accumulates sufficient appropriate evidence to be able to form a conclusion, based on having obtained limited assurance about the financial statements as a whole. Accordingly, the practitioner may identify the need to perform further procedures at the time of designing the procedures for the review, or when evaluating evidence obtained from the procedures performed.
9. The Task Force has clarified the relevant requirements and application material in the draft ISRE as shown in the table below (marked changes are shown in Agenda Item 2-B).

Par Ref.	Task Force's proposed amended wording for ISRE 2400 (Revised)
47	<i>Designing and Performing Procedures</i> The practitioner shall design and perform inquiry and analytical procedures to address all material items in the financial statements, including disclosures, and to focus on addressing areas in the financial statements where material misstatements are likely to arise.
A82	The requirements of this ISRE relating to designing and performing inquiry and analytical procedures, and procedures addressing specific circumstances, are designed to enable the practitioner to achieve the objectives specified in this ISRE. The circumstances of review engagements vary widely. Accordingly, there may be circumstances in which inquiry and analytical procedures, and procedures addressing specific circumstances, may not be expected to yield the evidence needed to obtain limited assurance. In these circumstances, the practitioner may judge it necessary to design and perform other procedures in order to be able to form a conclusion.
A83	The fact that the practitioner may deem it necessary to perform other procedures judged by the practitioner to be necessary in the circumstances does not alter the practitioner's objective of obtaining limited assurance in relation to the financial statements as a whole.

55	<p>Evaluating Evidence Obtained from the Procedures Performed</p> <p>The practitioner shall evaluate whether sufficient appropriate evidence has been obtained from the procedures performed. If not, the practitioner shall perform other procedures judged by the practitioner to be necessary in the circumstances to be able to form a conclusion on the financial statements.</p>
A104	<p>In some circumstances, the practitioner may not have obtained the evidence that the practitioner had expected to obtain through the design of primarily inquiry and analytical procedures and procedures addressing specific circumstances. This situation may arise even though the practitioner has not become aware of a matter(s) that causes the practitioner to believe the financial statements may be materially misstated, as addressed in paragraph 57. In these circumstances, the practitioner considers that the evidence obtained from the procedures performed is not sufficient and appropriate to be able to form a conclusion on the financial statements. The practitioner may:</p> <ul style="list-style-type: none"> • Extend the work performed; or • Perform other procedures judged by the practitioner to be necessary in the circumstances. <p>Where neither of these is practicable in the circumstances, the practitioner will not be able to obtain sufficient appropriate evidence to be able to form a conclusion and is required by this ISRE to determine the effect on the practitioner’s report, or on the practitioner’s ability to complete the engagement.</p>
57	<p><i>Additional Procedures When the Practitioner Becomes Aware that the Financial Statements May Be Materially Misstated</i></p> <p>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:</p> <ol style="list-style-type: none"> (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. <p>(Read together with the amended application material in paragraphs A96-A101 shown in Agenda Item 2-B)</p>

Matter for IAASB Consideration

Q1. Does the IAASB agree with the Task Force’s proposed amendments to the draft ISRE (shown in Agenda Item 2-B) to explain more clearly the conditional requirements that address the two circumstances that, if they exist, would require the practitioner to expand the procedures performed in a review engagement?

B. The Practitioner’s Report: Description of the Review Engagement

10. ED-2400 required the practitioner’s report to include a description of the scope of a review of financial statements (paragraph 83), as follows:
 - (i) “*In a review engagement, the practitioner performs procedures to obtain sufficient appropriate evidence as the basis for concluding on the financial statements as a whole;*” and

- (ii) *“The procedures performed consist primarily of making inquiries of management and others within the entity involved in financial and accounting matters, and applying analytical procedures in relation to the financial statements.”*
11. The majority of the respondents to ED-2400 who commented on this issue believed the practitioner’s report required under ED-2400 adequately communicates to users the work undertaken by the practitioner for the review.³ Two respondents expressed the view that the usefulness of the review report could be improved by including a detailed summary of the procedures performed for the review.⁴
12. The proposed ISRE in Agenda Item 2-B retains the reporting requirements set out in ED-2400 with the following amended wording (paragraph 86):
- “The practitioner shall include in the report a description of the nature of a review of financial statements and its limitations, and shall state that:
- (a) A review engagement under this ISRE is a limited assurance engagement;
- (b) The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained; and
- (c) The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (ISAs), and, accordingly, the practitioner does not express an audit opinion on the financial statements.”
13. In the March 2012 IAASB discussion, a Board member suggested that the Task Force should consider including additional application material to provide practitioners further guidance about describing the scope of the review performed in the practitioner’s report. The member believed that application material contained in ISAE 3410⁵ (for describing in practitioners’ reports the procedures performed in a limited assurance greenhouse gas (GHG) assurance engagement) is also suited to the practitioner’s report for a review of financial statements.
14. Relevant extracts from ISAE 3410 are included in Appendix 1 of this Paper, for reference.
15. The IAASB requested the Task Force to explore whether the approach taken for describing a limited assurance GHG assurance engagement, as set out in ISAE 3410, can be used for an the ISRE 2400 review report, and to consider the implications of doing so.

Task Force Recommendation

16. The Task Force recommends that the ISAE 3410 limited assurance style of reporting not be considered for a review of financial statements.
17. The Task Force is of the opinion that modeling the ISRE 2400 review report on an ISAE 3410 limited assurance report would not yield meaningful benefit or useful results for report readers. Rather, it believes doing so would likely:

³ AOB, CMA, CGA, CALCPA, BHD, CNDCEC, DTT, GT, HCA, HKICPA, IBRACON, ICAEW, ICAP, ICAS, ICPAK, ICPAS, IDW, IFAC SMPC, IRBA, MIA-Malta, MIA-MICPA, PwC, RSM, ZICA.

⁴ AG-NZ; APB

⁵ International Standard on Assurance Engagements (ISAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*

- Confuse report readers, especially as to the distinction between an audit engagement and a review engagement; and
- Diminish, rather than enhance, the value of the review report for users of unaudited financial information.

18. The Task Force's analysis shows key areas of difference between the engagements that drive different approaches to reporting used in each. As follows:

- These different types of assurance engagements involve significantly different types of underlying subject matter information:
 - The GHG statement in an ISAE 3410 assurance engagement; and
 - The historical financial statements prepared in accordance with a specified financial reporting framework, in an ISRE 2400 review engagement.

Consequently, the information presented in a GHG statement is fundamentally different, in both nature and form, from that presented in financial statements for financial reporting. Notwithstanding that both reports are for limited assurance engagements, the form, content and presentation of the practitioner's report reflects the different subject matter context of the each engagement. In the case of ISRE 2400, the form and content of the report is also influenced by the report provided for an audit of financial statements under the ISAs.

- There is a wide range of possible limited assurance engagements for GHG statements, depending on users' assurance needs. These engagements vary considerably as to the types of procedures practitioners use to obtain assurance, and in this respect differ markedly from the general approach of performing "primarily inquiry and analytical procedures" applied in a review of financial statements. Accordingly, the work effort applied and the acceptable level of risk may be different across GHG reporting settings, reflecting consideration of the engagement circumstances and intended users. The range of limited assurance engagements for historical financial statements is much narrower, with generally less variation in the work effort applied to reduce engagement risk to an acceptable level.
- Historically the review report on historical financial statements has worked well with a short and standardized description of work performed, and users of review reports are familiar with this style of reporting. In contrast, there is relatively little experience with limited assurance reports in GHG assurance engagement reporting. The approach to reporting under each type of engagement reflects many different considerations, and what works in one reporting environment may not work in another.
- GHG statements are a relatively new form of reporting, and it cannot be assumed that users of limited assurance reports are as familiar with the reporting frameworks used for this type of reporting, or the types of information reported in GHG statements. Consequently, reporting additional details of the procedures performed in a limited assurance GHG engagement may be appropriate as experience develops in identifying best practice in the reporting undertaken for these engagements.

19. The Task Force also believes that the anticipated drawbacks of adapting the type of reporting used in ISAE 3410 engagements to ISRE 2400 engagements would significantly outweigh the possible benefits for readers of review reports.

Some possible advantages

20. If detailed information is provided about the procedures performed in a review of financial statements, readers of the practitioner's report will be able to better appreciate the conclusion expressed by the practitioner (i.e. based on the procedures performed and the evidence obtained, nothing has come to my attention that causes me to believe that ...).
21. There may be benefit in reports for different types of limited assurance engagements using a consistent format, to enhance readers' familiarity, acceptance and general understanding of limited assurance reports.

Some possible disadvantages

22. Readers of the review report may give undue weight to the information about procedures performed in reading and understanding the practitioner's conclusion on the financial statements. The risk that users are likely to take more assurance from the practitioner's report than is actually intended is heightened in view of the fact that, in today's auditor's report, the auditor does not detail the procedures performed for an audit of financial statements.
23. In this regard, there are already expectations gaps identified with respect to assurance reporting on financial statements, and the risk of misunderstanding is generally relatively higher for reviews as users may fail to understand the limited assurance basis of the review report. If the ISRE 2400 review report were to provide expanded descriptions of procedures performed, there is considerable risk that the readers may perceive the more detailed review report as providing a level of assurance equivalent to or greater than the reasonable assurance associated with an audit.

(To offset that potential confusion, the Task Force believes something would be needed to directly mitigate that risk, for example by describing the procedures not performed that would have been performed had an audit been undertaken. However, that would also likely lead to a markedly longer form of report. The Task Force does not therefore believe that this approach to reporting applied to a review would be helpful or useful for readers of the practitioner's review report.)

24. In addition, users could interpret the practitioner's conclusion provided pursuant to the review as a type of piecemeal conclusion, rather than as a conclusion on the financial statements as a whole. That is, the description of procedures performed may lead users to believe the practitioner has obtained more assurance for financial statement items to which the procedures described relate, than for the other areas of the financial statements.
25. Finally, the approach of customized reporting of the procedures performed in a review engagement could also have the adverse outcome of "requirement creep," if practitioners deem disclosure of a procedure, such as confirmation of bank balances, as providing a competitive advantage. This gives rise to the potential for certain procedures to become de facto standard procedures for reviews, merely by the fact of being commonly reported procedures.

Available Alternatives

26. The Task Force understands that, as an alternative strategy to assist users with specific reporting needs, in some jurisdictions practitioners undertake engagements to perform both a review of

financial statements as well as certain agreed-upon procedures⁶ (sometimes referred to as “hybrid engagements”).

27. The Task Force views this as a sound ‘middle-ground’ approach. It enables the practitioners to respond to specific user reporting needs through reporting on agreed-upon procedures as a supplement to reporting a conclusion on the financial statements as a whole based on limited assurance.

Matter for IAASB Consideration

Q2. Does the IAASB agree with the Task Force’s recommendation above and therefore that the description of the scope of the review of financial statements in the practitioner’s report as set out in the draft ISRE should not be changed?

C. ISRE 2400 and ISRE 2410: Reporting and Scope Clarification

28. The IAASB’s previous discussion of significant issues arising from the comments received on ED-2400, has highlighted the need to consider and address the following matters in relation to ISRE 2400 vs. ISRE 2410:
- (i) How to make the scope of each ISRE as clear as possible.
 - (ii) How to clearly distinguish an ISRE 2400 review engagement from an ISRE 2410 engagement with respect to reports provided under each engagement.

C.1 Clarifying the Scope of ISRE 2400 vs. ISRE 2410

29. In the December 2011 IAASB discussion, the Task Force noted that some respondents to ED-2400 had expressed the need for the scope of each of the ISREs to be clarified further.⁷ These respondents noted the potential for confusion to arise among practitioners over which of the ISREs to use in certain situations. Examples cited as occurring in practice include:

- Where a practitioner appointed as the auditor of an entity’s statutory financial statements, is requested to review this entity’s financial statements prepared for a purpose other than its statutory financial reporting – for example, if the entity is a component of a group, the entity’s full period financial statements prepared for group financial reporting purposes when the entity’s financial year-end is not conterminous with the group entity’s financial year end.

In that situation, the auditor would be required to apply ISRE 2410, but does not have the presumed audit-based knowledge of the entity’s financial statements for that part of the reporting period that extends beyond the entity’s own balance sheet date).

⁶ In an agreed-upon procedures engagement, the practitioner’s report for the agreed-upon procedures lists the actual procedures performed, and the results of those procedures in a “non-assurance” style of reporting. This type of engagement are more likely to arise in special purpose reporting situations, e.g. for an entity’s financial reporting in context of its relationship with providers of loans or grants, and are useful in a number of specific reporting contexts.

⁷ AOB; MIA Malta; FEE; IDW

- In the period when a change occurs in the type of assurance engagement performed for an entity's annual financial statements. For example, when an entity is able to elect to change to have its annual financial statements reviewed, instead of being audited.

In that situation, the practitioner performing the review would be able to perform the first such review engagement under ISRE 2400, even if the practitioner was previously the auditor of the entity's financial statements, and therefore will possess some level of audit-based knowledge from having previously performed the audit.

- Where the practitioner is appointed to review the interim financial information of an entity in conditions where the practitioner believes they will be appointed as the auditor of the entity's annual financial statements, but where the appointment or reappointment is not confirmed at the stage of the review of the interim financial statements (i.e. technically the practitioner is not the appointed auditor of the entity).

30. Some respondents expressed the view that the current scoping requirements set out in ISRE 2410 and extant ISRE 2400 are not sufficiently clear.

ISRE 2410.03 states:

The auditor who is engaged to perform a review of interim financial information should perform the review in accordance with this ISRE. Through performing the audit of the annual financial statements, the auditor obtains an understanding of the entity and its environment, including its internal control. When the auditor is engaged to review the interim financial information, this understanding is updated through inquiries made in the course of the review, and assists the auditor in focusing the inquiries to be made and the analytical and other review procedures to be applied. A practitioner who is engaged to perform a review of interim financial information, and who is not the auditor of the entity, performs the review in accordance with ISRE 2400, "Engagements to Review Financial Statements." As the practitioner does not ordinarily have the same understanding of the entity and its environment, including its internal control, as the auditor of the entity, the practitioner needs to carry out different inquiries and procedures to meet the objective of the review. [Emphasis added]⁸

ISRE 2410.3A states further:

This ISRE is directed towards a review of interim financial information by an entity's auditor. However, it is to be applied, adapted as necessary in the circumstances, when an entity's auditor undertakes an engagement to review historical financial information other than interim financial information of an audit client.*

ED-2400.03 states:

A practitioner engaged to perform a review of an entity's financial statements or interim financial information, who is the auditor of the entity financial statements, performs such a review in accordance with ISRE 2410.

⁸ In February 2008, the IAASB issued amendments to the scope paragraphs of ISRE 2410 and extant ISRE 2400 that were intended to clarify the scope of each ISRE (see <http://www.ifac.org/news-events/iaasb-amends-international-standards-review-engagements-clarify-their-applicability-spec>). The Explanatory Memorandum for these amendments stated that: "... *the principal distinction between ISRE 2400 and ISRE 2410 ... is that ISRE 2410 is written on the basis that the entity's auditor is able to use his or her audit-based knowledge of the entity when carrying out a review of any historical financial information.*"

31. The specific wording used in the scope paragraph of ISRE 2410 that seems to be the cause of confusion is, "...*who is not the auditor of the entity*". As outlined above, there is perceived ambiguity about what situations are encompassed by this wording in some cases.
32. It is also not clear whether this phrase is intended to mean the auditor appointed to audit the entity's statutory financial statements, or the "auditor of record" when an entity is required to appoint an auditor under applicable law or regulation. The situation can also arise where, due to the timing of the entity's auditor appointment process, the matter of who will be appointed to audit the entity's financial statements is undetermined. This leaves the practitioner performing the review of the entity's interim financial statements in a position of uncertainty, not being "the auditor of the entity" in the sense of being confirmed as either the appointed auditor, or the auditor of the entity's financial statements.
33. In all such cases, the practitioner would presumably default to applying ISRE 2410. However, that would involve the assumption of having audit-based knowledge, or having to acquire it. If the practitioner's possible appointment as the auditor is uncertain, this causes a practical difficulty.
34. A further question is whether an auditor's "audit-based knowledge" extends to having that level of knowledge as it pertains to different financial reporting frameworks. For example, if the auditor of an entity's financial statements prepared using a non-IFRS national financial reporting framework is requested to review the entity's interim financial statements prepared applying IFRS, it has been suggested that the ISRE 2410 premise that the auditor has an audit-based knowledge of the entity would not be valid for the IFRS-based interim financial statements. It is argued that in this situation, the auditor may not have audit-based knowledge of the entity's controls over financial reporting in respect of the IFRS financial statements.

Task Force Recommendation

35. The Task Force recognizes that, since the wording at issue originated largely in the context of describing the scope of ISRE 2410, it seems appropriate that any clarification (insofar as there is lack of clarity in some areas) would need to include consideration of the scope of ISRE 2410. It seems inappropriate to seek to resolve issues such as those outlined above through scope clarifications located in ISRE 2400.
36. Having considered several options, the Task Force believes that best course of action would be to amend the scope paragraph of the draft ISRE 2400 as follows (see Agenda Item 2-B, deleted text is shown below as strike-out, additions as underlined text):

(Par 3) ~~A practitioner engaged to perform~~ This ISRE does not address a review of an entity's financial statements or interim financial information, performed by a practitioner who is the independent auditor of the entity's financial statements, ~~performs such a review in accordance with ISRE 2410.~~
37. Task Force believes this is the best way forward at this stage, in the context of clarifying the scope of proposed ISRE 2400. The questions surrounding the scope of ISRE 2410 warrant further examination in order to achieve clarity in the scope of that standard also, and the Task Force considers that is best done in the context of a full review of ISRE 2410. As the Task Force's mandate specifically excludes revision of ISRE 2410, however, the Task Force does not propose any amendments to ISRE 2410 at this time.

Matter for IAASB Consideration

- Q3. Does the IAASB agree with the Task Force's recommendation above to amend paragraph 3 in proposed ISRE 2400, in order to clarify the application scope of ISRE 2400? If not, what alternative suggestions does the Board have on clarifying the scope of ISRE 2400?

C.2 Distinguishing ISRE 2400 engagements from ISRE 2410 engagements through reporting

38. In the December 2011 and March 2012 IAASB discussions, a Board member pointed to the need for the reports produced for each type of review engagement to be more clearly distinguishable from each other, so that users can differentiate between these two types of review engagement. This was considered important as the form of conclusion expressed in each review engagement is similar, although the work effort in each engagement typically differs quite markedly.

Task Force Recommendation

39. The Task Force has considered the reporting requirements for the reports issued under each engagement, and also how those requirements are reflected in the illustrative reports provided in ISRE 2410 and in draft ISRE 2400. (For reference, an illustrative report from ISRE 2410 is provided in Appendix 2.)
40. After reviewing the two types of reports, the Task Force believes they are sufficiently different to be distinguishable from each another to users of review reports. Specifically, as is apparent from the illustrative reports:
- Each report uses different wording and flow, and is also visually different. The ISRE 2410 illustrative report uses sub-headings for the different sections of the report.
 - The reports:
 - Have different titles. The report under draft ISRE 2400 report is titled, "Independent Practitioner's Review Report." The ISRE 2410 report has the title, "Report on Review of Interim Financial Information."
 - Clearly signal the standards under which the engagement is performed.
41. On the question of whether users of review reports may become confused between them (for example, users of ISRE 2410 reports may possibly incorrectly believe that a 2400 review report has been issued by the auditor of the entity), the Task Force notes that, in most jurisdictions, the user groups of each type of review report are likely to be different:
- Users of ISRE 2410 reports will typically be users of the entity's *audited* annual financial statements.
 - Users of ISRE 2400 reports will typically be users of *unaudited* annual financial statements, or other type of periodic financial information, and for these users the non-audit nature of the review engagement is clearly flagged in the report.

On this basis, the Task Force believes it unlikely that there is scope for significant risk of confusion.

42. To respond to the concern expressed, the Task Force considered introducing additional wording to the ISRE 2400 report to expressly state that the review engagement has not been performed by the auditor of the entity. However after reviewing a number of different examples of such wording, the

Task Force rejected it concluding that it could give the ISRE 2400 report an overly negative flavor, and thereby diminish user perceptions of the value of the review report.

43. Overall, the Task Force does not recommend use of any further negative wording or caveats in the ISRE 2400 report (there are already two clear caveats in the review report that serve to clearly distinguish the review from an audit engagement), as that would likely impair users' perception of the value of the report. A few respondents⁹ to ED-2400 commented that wording that emphasizes what the review engagement is not, and what has not been done relative to an audit, detracts from the value of the report to users. These respondents took the view that, to have value to users, the report needs to focus on communicating what the review engagement is, rather than what it is not.
44. If the view is nevertheless that something must be done, the Task Force suggests that one way may be to clearly label the ISRE 2410 report to make it apparent to the reader that the report is issued by the independent auditor of the entity, in line with the scoping statements contained in ISRE 2410. The ISRE 2410 report title could read: "Report on Review of Interim Financial Information Performed by the Independent Auditor of [Company Name]."

If the Board considers it desirable to change the title of the ISRE 2410 report, along with the relevant reporting requirement in ISRE 2410 (paragraph 43(a) of ISRE 2410), a consequential amendment to ISRE 2410 to introduce this change could be proposed for approval at the meeting.

Matters for IAASB Consideration

- Q4. Does the IAASB agree with the Task Force's view that the ISRE 2400 and ISRE 2410 reports are already sufficiently distinguishable for the users of each of these review reports?
- Q5. Does the IAASB believe there is need for a consequential amendment to ISRE 2410, to signal more clearly that the ISRE 2410 report is a report provided by the independent auditor of the entity, in line with the scoping statements contained in ISRE 2410?

D. Other Drafting Revisions to the Proposed ISRE

45. **Agenda Item 2-B** provides a marked-up version of the proposed ISRS from ED-2400 showing all the Task Force's suggested amendments to the draft ISRE arising from the Task Force's full review of the responses received. The amendments reflect:
- (a) Proposals discussed at the IAASB's discussions in December 2011 and March 2012, as well as those relating to the issues presented in this Issues Paper; and
 - (b) Further drafting refinements (including various drafting suggestions provided by ED-2400 respondents) to improve the clarity, understandability and readability of the draft standard.
46. Specifically, in the reporting section of the draft ISRE, the Task Force eliminated a number of instances of duplicate content or wording to improve the flow and readability of the ISRE. See, for example, in Agenda Item 2-B, the new paragraph 71 (which allows for the deletion of 72(a)-(b), and others) and paragraph 78.

⁹⁹ ACCA; EFAA; FEE; ICAEW

Consideration by IAASB of Significant Matters Identified by Task Force

45. In the Task Force's view, the significant matters the Task Force has identified as a result of its deliberations since the beginning of this project, and the Task Force's considerations thereon, have all been reflected in the issues papers presented at the IAASB meetings in December 2011 and March 2012, and at this meeting. In the Task Force's view, there are no significant matters discussed within the Task Force on this project that have not been brought to the IAASB's attention

Consideration by IAASB of Need for Further Consultation

46. Based on the Task Force and the IAASB's deliberations to date, and taking account of the nature of the proposed revisions to ISRE 2400 reflected in the draft ISRE 2400 (Revised), the Task Force does not believe that there are specific issues on which there is need for further consultation or to obtain further views (for example, through a public forum or roundtable), or for which there is need to field test the application of the draft ISRE.

Effective Date

47. The explanatory memorandum to the ED proposed that the ISRE's effective date be approximately 18 months after the date of final approval of the standard. The significant majority of respondents who commented on the proposed effective date expressed support for it as representing a sufficient period to enable effective implementation of the standard.
48. Accordingly, subject to the IAASB's approval of the ISRE at the June 2012 meeting, the Task Force proposes that the final standard be effective for reviews of financial statements for periods ending on or after 31 December, 2013.
49. As provided for under the IAASB's amended Preface,¹⁰ early application of the ISRE would be permitted.

Matter for IAASB Consideration

- Q6. Does the IAASB agree with the proposed effective date for the ISRE?

Consideration of the Need to Re-Expose the Draft ISRE

50. **Agenda Item 2-D** is the marked-up version of the draft ISRE showing changes proposed to ED-2400. The Task Force believes that the changes reflected in the draft ISRS are in response to matters raised by the respondents, and do not fundamentally change the principles in ED-2400 or represent other changes of substance.
51. In particular, the Task Force believes that the following changes responding to the respondents' comments on ED-2400 have helped to clarify the objectives, requirements and application guidance contained in the draft ISRS, particularly in the following areas:
- Clarifying the practitioner's objectives in a review of historical financial statements under this ISRE.

¹⁰ Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements, paragraph 18

- Strengthening the engagement acceptance and continuance requirements for a review of financial statements under this the ISRE.
 - Explaining the approach to performing a review of financial statements, including the approach to designing and performing procedures for the review, and the practitioner's response in the situation where the practitioner becomes aware of a matter that causes the practitioner to believe the financial statements may be materially misstated.
 - Clarifying the reporting requirements of the ISRE, including the mandatory elements of the practitioner's report for a review engagement, in order to clearly and effectively communicate the nature and scope of the review engagement for readers of the report and for users of unaudited financial information that is the subject of a review. The Illustrative reports show how the required elements of the report may be communicated and presented in a cohesive manner for both unmodified and modified reports.
52. On the basis of the above, the Task Force believes that re-exposure is not necessary.

Appendix 1

Extracts from ISAE 3410, Assurance Engagements on Greenhouse Gas Statements

A142	<p><i>Description Summary of the Practitioner’s Responsibility Procedures (Ref: Para. 764(h)(ii))</i></p> <p><i>The assurance report in a reasonable assurance engagement normally follows a standard wording and only briefly describes procedures performed. This is because, in a reasonable assurance engagement, describing in any level of detail the specific procedures performed would not assist users to understand that, in all cases where an unmodified report is issued, sufficient appropriate evidence has been obtained to enable the practitioner to express an opinion.</i></p>
A143	<p>In a limited assurance engagement, an appreciation of the nature, timing and extent of procedures performed is essential for the intended users to understand the conclusion expressed in a limited assurance report. The description of the practitioner’s procedures in a limited assurance engagement is therefore ordinarily more detailed than in a reasonable assurance engagement. It also may be appropriate to include a description of procedures that were not performed that would ordinarily be performed in a reasonable assurance engagement. However, a complete identification of all such procedures may not be possible because the practitioner’s required understanding and assessment of risks of material misstatement are less than in a reasonable assurance engagement.</p> <p>Factors to consider in making that determination and the level of detail to be provided include:</p> <ul style="list-style-type: none"> • Circumstances specific to the entity (e.g., the differing nature of the entity’s activities compared to those typical in the sector). • Specific engagement circumstances affecting the nature and extent of the procedures performed. • The intended users’ expectations of the level of detail to be provided in the report, based on market practice, or applicable laws or regulations.
144	<p>In describing the procedures performed in the limited assurance report, it is important that they are written in an objective way but are not summarized to the extent that they are ambiguous, nor written in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is also important that the description of the procedures not give the impression that an agreed-upon procedures engagement has been undertaken, and in most cases will not detail the entire work plan.</p>

Extract from ISAE 3410, Appendix 2 – Illustration 2

INDEPENDENT PRACTITIONER’S LIMITED ASSURANCE REPORT ON ABC’S GREENHOUSE GAS (GHG) STATEMENT

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the GHG statement based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements 3410, *Assurance Engagements on Greenhouse Gas Statements* (“ISAE 3410”), issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform this engagement to obtain limited assurance about whether the GHG statement is free from material misstatement.

A limited assurance engagement undertaken in accordance with ISAE 3410 involves assessing the suitability in the circumstances of ABC’s use of [applicable criteria] as the basis for the preparation of the GHG statement, assessing the risks of material misstatement of the GHG statement whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall

presentation of the GHG statement. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

The procedures we performed were based on our professional judgment and included inquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records.

[The practitioner may insert a summary of the nature and extent of procedures performed that, in the practitioner's judgment, provides additional information that may be relevant to the users' understanding of the basis for the practitioner's conclusion.¹¹ The following section has been provided as guidance, and the example procedures are not an exhaustive list of either the type, or extent, of the procedures which may be important for the users' understanding of the work done.]¹²

Given the circumstances of the engagement, in performing the procedures listed above we:

- Through inquiries, obtained an understanding of ABC's control environment and information systems relevant to emissions quantification and reporting, but did not evaluate the design of particular control activities, obtain evidence about their implementation or test their operating effectiveness.
- Evaluated whether ABC's methods for developing estimates are appropriate and had been consistently applied. However, our procedures did not include testing the data on which the estimates are based or separately developing our own estimates against which to evaluate ABC's estimates.
- Undertook site visits [at three sites] to assess the completeness of the emissions sources, data collection methods, source data and relevant assumptions applicable to the sites. The sites selected for testing were chosen taking into consideration their emissions in relation to total emissions, emissions sources, and sites selected in prior periods. Our procedures [did/did not] include testing information systems to collect and aggregate facility data, or the controls at these sites.]³⁶

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether ABC's GHG statement has been prepared, in all material respects, in accordance with the [*applicable criteria*] applied as explained in Note 1 to the GHG statement.

¹¹ The procedures are to be summarized but not to the extent that they are ambiguous, nor described in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is important that the description of the procedures does not give the impression that an agreed-upon procedures engagement has been undertaken, and in most cases will not detail the entire work plan.

¹² In the final report, this explanatory paragraph will be deleted.

Appendix 2

[Excerpt from ISRE 2410] Example of Review Reports on Interim Financial Information

Complete Set of General Purpose Financial Statements Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation

Report on Review of Interim Financial Information

(Appropriate addressee)

Introduction

We have reviewed the accompanying balance sheet of ABC Entity as of March 31, 20X1 and the related statements of income, changes in equity and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes.³ Management is responsible for the preparation and fair presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.”¹³ A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit.

Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of (or “does not present fairly, in all material respects,”) the financial position of the entity as at March 31, 20X1, and of its financial performance and its cash flows for the three month period then ended in accordance with [applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards].¹⁴

AUDITOR

Date; Address

¹³ In the case of a review of historical financial information other than interim financial information, this sentence should read as follows: “We conducted our review in accordance with International Standard on Review Engagements 2410, which applies to a review of historical financial information performed by the independent auditor of the entity.” The remainder of the report should be adapted as necessary in the circumstances.

¹⁴ The auditor may wish to specify the regulatory authority or equivalent with whom the interim financial information is filed.