

IAASB CAG PAPER



International Federation of Accountants

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Agenda Item

J.1

Committee: IAASB Consultative Advisory Group

Meeting Location: New York

Meeting Date: March 8-9, 2011

Limited Assurance—Report Back

Objective of Agenda Item

1. The objective of this Agenda Item is to provide a brief report back on proposals of the Representatives on the topic as discussed at the September 2010 CAG Meeting.

Papers to Be Referred to during Discussion

2. The discussion on this topic will follow the structure of this CAG Paper.

September 14–15, 2010 CAG Discussion

3. The purpose of this session was to draw together the three IAASB projects on the CAG agenda that touch on limited assurance, being proposed ISAE 3410,¹ proposed ISAE 3000 (Revised),² and proposed ISRE 2400 (Revised),³ in advance of the detailed individual discussions. Report backs on those discussions are included as CAG **Agenda Items J.2, J.3 and J.4**, respectively. Below is an extract from the draft minutes of the September 2010 CAG meeting,⁴ and an indication of how the IAASB or the Task Force responded to the Representatives' comments.

Representatives' Comments	Task Force/IAASB Response
Ms. Sucher, Mr. Johnson and Mr. Koltvedgaard noted that the market, including regulators and users, has a lower level of understanding of limited assurance compared to reasonable assurance and that it was difficult for the market to understand what has been	Point taken into account. In developing proposed ISRE 2400 (Revised), the IAASB considered whether the practitioner's report should set out a more detailed articulation of the procedures performed. Arguably, doing so might enable users to understand more fully the

¹ Proposed International Standard on Assurance Engagements (ISAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*

² Proposed ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

³ Proposed International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

⁴ The minutes will be approved at the March 2011 IAASB CAG meeting.

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done without additional education.	<p>work effort applied in the engagement. The IAASB believes, however, that, in a review where specified <i>types</i> of procedures are required (that is, primarily inquiry and analytical review), there is no need to provide that level of detail. Indeed it is recognized that doing so might introduce the potential for misunderstanding, as readers of the report may infer from the level of detail a higher level of assurance than is actually the case.</p> <p>In developing proposed ISAE 3410 in relation to limited assurance GHG engagements, the IAASB noted that the level of assurance that the practitioner obtains can vary significantly depending on the procedures performed in the individual circumstances of the engagement. It is important therefore that the summary be written in an objective way that allows intended users to understand the work done as the basis for the practitioner's conclusion. While it is difficult to describe the appropriate level of summation in a general way, in most cases it will not involve detailing the entire work plan. Nevertheless, it is important for it not to be so summarized as to be ambiguous, nor written in a way that is overstated or embellished.</p> <p>In addition, for all limited assurance engagements, the IAASB has given attention to form and content of the practitioner's report to better inform its users of the procedures performed so that they can have context to evaluate the assurance being provided. For example, in the case of a limited assurance GHG engagement, the report must include a statement that the extent of procedures is substantially less than a reasonable assurance engagement and consequently does not enable the practitioner to obtain the assurance</p>

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<p>Ms. Sucher and Mr. Kockvedgaard supported standards that defined procedures rather than defining limited assurance as a level of assurance less than reasonable assurance.</p> <p>She [Ms. Sucher] also noted that another myth regarding limited assurance engagements was that limited assurance engagements are preferable for areas where the subject matter is challenging.</p> <p>Mr. Gutterman noted that there seems to be a consensus about users' level of understanding of limited assurance and that a survey of users to gauge their level of understanding of negative form conclusions is needed.</p>	<p>necessary to become aware of all significant matters that might be identified in a reasonable assurance GHG engagement</p> <p>Looking ahead, the IAASB will consider whether, when and in what form to publish explanatory material to assist with such education.</p> <p>Point not accepted. Given the large variations in the nature of assurance engagements, the IAASB considers that the procedures to be performed need to be allowed to vary to adequately respond to likelihood that the subject matter information may be materially misstated.</p> <p>Ms. Hiller agreed during the meeting, noting her view that limited assurance was not appropriate if the subject matter was not understood.</p> <p>Point taken into account. Such a survey may be considered necessary after responses to the exposure drafts of proposed ISRE 2400 (Revised), proposed ISAE 3410 and proposed ISAE 3000 (Revised).</p>
<p>Mr. Damant indicated that there were many outside the profession that believed that all audits were forensic audits. Mr. Baumann noted that both IAASB and U.S. Public Company Accounting Oversight Board (PCAOB) standards consider fraud detection as part of an audit, and that both boards consider reasonable assurance to be a high level of assurance that the financial statements as a whole are free of material misstatement, whether due to fraud or error.</p>	<p>Point taken into account. The IAASB will consider whether, when and in what form to publish explanatory material that may help dispel such misconceptions.</p>

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<p>Mr. Peyret asked if there was feedback from particular countries or from bankers in relation to trying to rely on limited assurance reports. He also asked if there were any civil or criminal liability implications of using limited assurance rather than reasonable assurance.</p>	<p>Ms. Hillier responded during the meeting that this was a debate for particular jurisdictions. Ms. Hillier noted that in Canada, for example, there are professional obligations and firm quality control obligations but the legal implications depend on whether the mandate arises from law or contract.</p>
<p>Mr. Koktvedgaard noted his view that a negative form of conclusion was not appropriate, while acknowledging the difficulties in developing a positive form of conclusion. Mr. Koktvedgaard asked whether it was possible for a practitioner to issue a positive form of opinion that is less than a full audit under ISAs, noting that there is a proposal in Denmark to express a positive form opinion without having conducted full audit procedures. He suggested the IAASB needs to determine who the users are and what they need in a particular engagement; in his view, users want a positive phrased assurance report that they understand. Mr. Koktvedgaard noted that the IASB had encountered the same challenge before undertaking IFRS for SMEs, but that the ISAs attempt to do with wording of the opinions what the IASB does by branding of the standards. Mr. Krantz agreed with Mr. Koktvedgaard and noted that examples of different reports would help inform the debate. Mr. Johnson noted that it was important to understand the context of the Danish positive form report: they did try to develop an engagement with reasonable assurance, but that commentators from outside of Denmark were not supportive and that the Danish parliament rejected the standard. Mr. Koktvedgaard clarified that the Danish government decided not to include the standard in the proposal that went to the Parliament, so the Parliament has</p>	<p>Point not accepted. Ms. Hillier acknowledged these points during the meeting but noted that, while the IAASB cannot specify a particular metric for reasonable assurance, it has determined that reasonable assurance is obtained when engagement risk is reduced to an acceptably low level. As such, it is difficult to give a range for reasonable assurance. She also noted that the ISRE 2400 Task Force has made numerous attempts to find positive language for a limited assurance engagement but none have been acceptable: they have either been too similar to the reasonable assurance opinion or have not articulated the concept appropriately.</p> <p>Ms. Hillier explained during the meeting that there are jurisdictions which have accepted negative forms of assurance for some time and, while it is important to not underestimate the challenges, it is possible to explain what is intended by a negative form of conclusion.</p> <p>As noted in the Exposure Draft (ED) of proposed ISRE 2400, the IAASB has explored whether the practitioner's conclusion should use wording that may be viewed as taking a more positive form. The IAASB deliberated on use of phrases such as "based on our review, the financial statements are credible" or "... appear credible," or are "worthy of belief," or "plausible," in place of the phrase "nothing has come to our attention that causes us to believe</p>

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<p>not voted on the standard. Mr. Damant also noted that some non-practitioners did not endorse the negative form of opinion.</p> <p>Mr. Attolini noted that there may be difficulties in understanding the differences between the different levels of assurance. He further commented that he continues to believe there might be some merit for a positive form of conclusion. While negative assurance may be appropriate for medium-sized enterprises, a limited assurance engagement of a small enterprise is close to a reasonable assurance engagement as the percentage of transactions reviewed is normally quite high. Mr. Diomeda also supported a positive form conclusion as he does not believe that SMEs will want an engagement with a negative form conclusion due to user expectations.</p>	<p>...” For example, the IAASB considered whether the practitioner’s conclusion could be expressed as, “Based on our review, it appears credible that the financial statements are prepared, in all material respects, in accordance with the financial reporting framework.”</p> <p>The IAASB concluded that these alternative expressions may have the unintended result of causing users to misinterpret the basis of the practitioner’s conclusion on the financial statements, which in a review is always limited assurance.</p> <p>The IAASB believes that the expression of the practitioner’s conclusion in the required form (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”...), taken in conjunction with the description of the work performed, is a critical element of the auditor’s communications to users to signal the limits of the review engagement.</p> <p>The Explanatory Memorandum to the ED of proposed ISRE 2400 (Revised) draws particular attention to the form of wording of the practitioner’s report and solicits specific comments thereon by respondents.</p>
<p>Mr. Ratnayake noted that there is substantial variation in limited assurance engagements from client to client, and asked whether it is possible to standardize the level of assurance to facilitate comparability.</p>	<p>Ms. Hiller responded during the meeting by noting that standardization is difficult for limited assurance engagements due to the range such assurance encompasses. However, the IAASB is addressing this by looking at what procedures would be performed in particular limited assurance engagements as it progresses individual projects (e.g., proposed ISRE 2400 (Revised), proposed ISAE 3410, etc.).</p> <p>Given the large variations in the nature of</p>

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	assurance engagements, the IAASB considers that the procedures to be performed need to be allowed to vary to adequately respond to likelihood that the subject matter information may be materially misstated.