

NSS Staff Consultation Paper – Summary of Significant Comments**Background**

1. The IAASB's *Strategy and Work Program, 2009-2011* includes a plan to start a project to revise ISRE 2400¹ and ISRS 4410² in 2009. In September 2008, IFAC released a consultation paper³ developed by staff of three national standard setters (NSS) and commissioned by IAASB ("Consultation Paper") on a revision of ISRE 2400. Sixteen responses have been received. A list of respondents is included in Appendix 1.
2. The majority of respondents to the Consultation Paper expressed support for the revision of ISRE 2400. Major themes from the responses and significant comments provided by the respondents are summarized below.

Major Themes from the Responses to the Consultation Paper

- ISRE 2400 needs to be updated to address a number of issues that are problematic in practice.
- There is scope to better clarify both the conceptual and practical aspects of limited assurance engagements, and specifically review engagements, to benefit both practitioners and users of reviews.
- Cost-effectiveness is an important consideration in selecting a limited assurance (i.e. review) engagement over a reasonable assurance (i.e. audit) engagement. In revising ISRE 2400, it will be important to avoid changes that will turn a review into a 'mini audit'.
- The demand for reviews of financial statements (other than reviews of interim financial statements) varies widely across jurisdictions. This demand is perceived to be weak or nonexistent in some jurisdictions. However, there is also perceived increasing demand for reviews in many other jurisdictions as an alternative to the audit (especially due to rising statutory thresholds for mandatory audit). Many respondents pointed out that it is important for the IAASB to have an understanding of the nature and extent of the demand for review engagements.
- Respondents noted the relationship between limited assurance engagements, (reviews) and related services engagements (compilations) in catering to users' needs for alternatives to audits. Many respondents stated that both the review and compilation engagement standards should be enhanced to allow users to perceive the value of these types of engagement and of the professional accountant involvement in them.
- A number of respondents noted work being done by NSS in developing 'alternatives to audits' in forms that could differ from an ISRE 2400 review to meet user demand for limited assurance for various subject matters, including financial statements. Some NSS are exploring

¹ ISRE 2400, "Engagements to Review Financial Statements."

² ISRS 4410, "Engagements to Compile Financial Statements."

³ The consultation paper is titled "Matters to Consider in a Revision of International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Financial Statements*."

the possibility of practitioners being able to provide ‘combinations of services’ to cater to different aspects of user needs, particularly in relation to small- and medium-sized entities.

- The application of independence requirements should be examined in the context of a revision of the review engagement standard.
 - It was also noted that it is important that there should be overall consistency between ISRE 2400 and ISRE 2410⁴. The circumstances when ISRE 2410 is to be applied by a practitioner (rather than ISRE 2400) should be very clear in revised standards.
3. A summary of significant comments received on specific questions raised in the Consultation Paper is set out below.

Responses received to Specific Questions

4. This section contains a summary of significant comments received from respondents on the specific questions raised in the Consultation Paper.

Moderate Level of Assurance and Engagement Risk

1. Is the concept of a ‘moderate level of assurance’ meaningful for practitioners?
2. How should a practitioner determine what constitutes a moderate level of assurance for a review of financial statements?

5. A number of respondents⁵ suggested that the IAASB should streamline terminology relating to levels of assurance in various forms of assurance engagements, including reviews and audits.
6. Terminology used for different levels of assurance should be defined and reconciled. One respondent (AUASB) was of the view that it should be clear from the IAASB’s “International Framework for Assurance Engagements” (“the Framework”) and also within all the relevant standards that the objective, nature and scope of the work and reports differ markedly between reviews and audits. Forms of reporting used for engagements characterized by different levels of assurance should be clear and distinguishable.
7. Respondents noted that levels of assurance are distinguished in the IAASB Glossary of Terms, the Framework and in ISAE 3000⁶ as being either ‘reasonable’ assurance’ or ‘limited assurance’. The term ‘moderate level of assurance’ referred to in ISAE 2400 is:
- not defined (either in ISRE 2400 or elsewhere); and
 - is not referred to or explained in the Framework.

The term ‘moderate assurance’ was generally seen as having been superseded by the description of levels of assurance contained the Framework⁷.

⁴ ISRE 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.”

⁵ AICPA; CNCC; FEE; IRBA; NiVRA

⁶ ISAE 3000, “Assurance Engagements other than Audits or Reviews of Financial Statements.”

⁷ FEE; ICAEW; HKICPA; AUASB; CNCC; IRBA; NZICA

8. Many of the respondents⁸ expressed a view that the concept of ‘moderate assurance’ is generally not well understood by practitioners. Also, because its meaning is interpreted subjectively, the concept is not consistently applied by practitioners.
9. Two respondents (CICA; AUASB) noted that establishing the concept of the level of assurance that characterizes review engagements in clear terms is important because:
 - users’ and practitioners’ understanding of the concept of a review is vital to its positioning in the marketplace as a service clearly distinct from audit and compilation engagements; and
 - if practitioners do not have a clear understanding of the conceptual basis of a review, they will not be able to properly explain the nature and purpose of reviews to users, and this is likely to contribute to “expectations gaps”.
10. The concept of differing levels of assurance was seen as meaningful for practitioners as it provides a way of differentiating the inputs and outputs of a review compared to an audit.
11. While the current approach to differentiate reviews from audits is to compare the level of assurance in the former with that in the latter, a respondent (CICA) suggested that another approach could be to attempt to define the level of assurance for reviews as a self-standing concept, without comparing it to that for audits. The respondent was of the view that this should be considered because although the premise underlying the current approach is that the level of assurance provided by an audit is widely understood, there are indications that this premise is questionable. The respondent suggested that it would be beneficial to have a term more clearly linked to review engagements, such as “review level assurance”.
12. Regarding attempts to quantify the level of assurance associated with a review, a few respondents (APB; AUASB) cautioned against attempting to measure and assign values to indicate different levels of assurance. They noted that this would be unlikely to assist development of a consistent approach to performing reviews. They were of the view that, in essence, practitioners need to deliver high quality review reports by:
 - applying professional judgment to plan the nature and extent of procedures needed to obtain sufficient appropriate evidence; and
 - making sound and appropriate decisions about the nature and extent of work to be performed, based on a mixture of cumulative experience and the requirements of standards.In their view, the practitioner’s judgment and decision-making will not be assisted by a requirement to apply a quantified concept of assurance to perform a review.
13. Regarding articulation and labeling of the concept of assurance that characterizes the review engagement, a few respondents (FEE; CNCC) commented that the term ‘moderate assurance’ is used (and preferred) in some jurisdictions because the term has a less negative connotation than ‘limited assurance’. In other jurisdictions the term ‘limited assurance’ is used and preferred, and is seen as a more accurate descriptor of the scope and extent of procedures performed to obtain the level of assurance needed for a review. They noted that regardless of which term is used,

⁸ ICAEW; IFAC SMPC; IBE-IRE; KPMG; IRBA; NZICA; IEC; NFPSAC

there appears to be a broad understanding that the different terms mean a level of assurance that is situated in between reasonable assurance and no assurance.

14. Additional comments received as follows:

- AICPA cautioned against allowing the situation to develop where ‘moderate assurance’ and ‘limited assurance’ are viewed as being different levels of assurance; and
- AUASB pointed out that though the term ‘moderate assurance’ may be seen as being ‘superficially attractive’ it cannot be used without modification to the Framework.

15. A few other respondents believe that the term ‘limited assurance’, though perhaps less comforting than ‘moderate assurance’:

- is more accurate and is less likely to create an ‘expectation gap’ (IFAC SMPC); and
- may be better understood because it suggests a level of assurance that is limited in relation to that provided by an audit (KPMG).

16. Responses to **Question 2** in the Consultation Paper were mixed:

- A few respondents (APB; CICA; NFPSAC) were of the view that there is a need for the standard to specify the nature and extent of procedures that should be performed to define the level of assurance associated with a review.
- Other respondents⁹ were of the view that the nature, timing and extent of the work to be performed to deliver this level of assurance should not be prescribed in the standard, but can best be addressed by practitioners applying professional judgment with consideration of:
 - (a) the circumstances of the engagement; and
 - (b) the need to reduce the risk of an *inappropriate* review report to an acceptable level (in view of the limited nature of the engagement), having regard to the fact that the review conclusion is expressed in negative terms.
- Many respondents¹⁰ commented that the nature, timing and extent of work for a review should be a combination of there being some prescribed minimum requirements in the standard, and practitioners’ professional judgment as to whether those requirements enable sufficient appropriate evidence to be obtained as a basis for the review conclusion. Areas suggested by the respondents where specific standards should apply to performance of reviews include:
 - consideration of risk in the context of procedures undertaken for the review;
 - analysis of procedures performed, and consideration of the relationship of this analysis within the context of materiality;
 - overall determination of whether evidence obtained supports the conclusions reached;
 - clear reporting of the engagement results.

⁹ AICPA; AUASB; IBE-IRE; KPMG

¹⁰ FEE; IFAC SMPC; NZICA; IRBA; IRBA

17. A few respondents who support a more prescriptive approach in ISRE 2400 (APB; CICA) also noted that the more judgmental the standard is, the more difficulty practitioners will have in understanding what work needs to be performed (i.e., greater inconsistency in work performed), and the more difficulty users will have in distinguishing an audit from a review. One of the respondents (APB) accordingly questioned whether the ‘risk-based’ approach to review engagements can be applied in the manner suggested by the Framework for such engagements.
18. One respondent (IRBA) emphasized that a practitioner’s ability to properly apply professional judgment to perform a review is necessarily conditioned by the practitioner’s understanding of the entity and knowledge of its business. Professional judgment exercised by a practitioner who is also the entity’s auditor is more likely to be better informed due to the auditor’s more extensive understanding and knowledge of the entity and its business. In contrast, that level of understanding and knowledge cannot be assumed for a practitioner who is not the entity’s auditor. Accordingly, the quality of the professional judgment may well vary depending on whether the practitioner is also the entity’s auditor. The respondent was of the view that this factor should be recognized. It also supported the view that to establish a consistent approach to the performance of reviews there needs to be some specification of the minimum work effort required.
19. Many respondents¹¹ acknowledged a need for more guidance in ISRE 2400 to assist practitioners’ judgment and decision-making, for example regarding gathering of evidence and documentation procedures. This is viewed as particularly important because performance of reviews may be new to many practitioners, and because acceptance of the limited assurance model will depend in no small part on the clarity with which ISRE 2400 communicates the purpose and work effort required and the expected deliverables in a review engagement (IFAC SMPC; HKICPA).

Conditions for Engagement Acceptance

The Decision to Accept and Engagement to Undertake a Review of Financial Statements

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| <p>3. Should ISRE 2400 contain requirements and guidance to assist practitioners’ judgments at the pre-acceptance stage as to whether a request to undertake a review of an entity’s financial statements is:</p> <ul style="list-style-type: none">(a) practicable; and(b) appropriate, in the sense of being likely to meet the needs and expectations of the engaging party and those parties who are intended users of the report? |
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20. Most respondents¹² expressed support for the inclusion of requirements and guidance to assist practitioners’ judgment and decision-making about whether to accept review engagements.

¹¹ AICPA; CNCC; HKICPA; ICAEW; IFAC SMPC; NivRA; NFPSAC

¹² FEE; ICAEW; HKICPA; AASB; AUASB; IFAC SMPC; KPMG; APB; IRBA; NZICA; NFPSAC

21. Some respondents¹³ noted that the IFAC Code of Ethics and ISQC 1¹⁴ contain generic requirements pertaining to the pre-acceptance stage of engagements. They were of the view that reference to these other standards could be included in a revised ISRE 2400.
22. A few respondents (IRBA; CICA) were of the view that material consistent with ISAE 3000 and the ISAs, tailored to the context of review engagements, would be helpful to assist practitioners' judgments for engagement acceptance. Other respondents (AIPCA; IBE-IRE; NIVRA) expressed the view that some guidance would be needed. For example, when accepting an engagement the practitioner should be satisfied that there is a rational purpose for the engagement, such as in circumstances where there are significant limitations on the scope of the practitioner's work. One respondent (AUASB) suggested that the standard should also recognize that law or regulation may impact the practitioner's decisions relating to engagement acceptance.
23. Two respondents (ICAEW; NZICA) noted the need to specifically emphasize the elements of an assurance engagement contained the Framework, because the existence of a three-party relationship may not be as obvious in a review as in an audit.
24. One respondent (FEE) emphasized that the standard should acknowledge the practical difficulty in meeting user expectations where users are many and varied, particularly with regard to their level of understanding of financial reporting or the nature of their relationship with the entity.
25. A few respondents (APB; CICA; NFPSAC) noted the importance of obtaining an understanding of the potential client to assess whether a review is practicable and whether it will likely meet the needs of users in the particular circumstances of the entity. For example, entities without:
- detailed financial information available to which procedures can be applied,
 - sufficient reliable accounting systems (and internal controls for those systems), or
 - knowledgeable management,
- are unlikely to be suited to having their financial statements reviewed.
- One respondent (KPMG) further noted the need for the practitioner to understand and agree to the rationale for an engagement to be undertaken as a review rather than an audit.
26. Also, one respondent (APB) noted that ultimately those charged with governance will decide what sort of engagement(s) are to be performed for the entity. In that context, the respondent suggested that there is merit in strengthening the requirements relating to engagement acceptance to ensure the nature of the engagement is properly understood by the engaging parties.

¹³ AICPA; CNCC; FEE; ICAEW; IBE-IRE; NZICA

¹⁴ ISQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements."

Clarification of the Obligations of Management/ those Charged with Governance and of a Practitioner Performing a Review of Financial Statements

4. Should ISRE 2400 explicitly describe the respective obligations of the entity's management and those charged with governance, and of the practitioner performing the review of the entity's financial statements?

27. Most respondents¹⁵ were of the view that ISRE 2400 should explicitly describe the respective obligations of management, those charged with governance and the practitioner in the same way as in the ISAs and for the same reasons.

28. One respondent (IRBA) noted that relevant guidance in ISRE 2410 might be useful in this regard.¹⁶

29. Respondents also highlighted that, as is the case for the ISAs:

- responsibilities of the parties to an engagement may differ depending on the circumstances and local regulatory requirements (ICAEW; NFPSAC), and
- the standard cannot impose responsibilities on management or those charged with governance.

Recognizing this, one respondent (CICA) suggested that the approach should be the same as that adopted in the ISAs regarding conditions that need to be satisfied before a practitioner can accept a review engagement.

30. Another respondent (NivRA) did not support inclusion of an explicit description of obligations of management and those charged with governance in the standard to the extent that those issues are regulated.

Evidence to Support the Review Engagement Report

Establishing a Reasonable Basis for Reporting the Review Conclusion

5. To achieve the objective of a review engagement, what factors influence the practitioner's assessment of the work effort required to provide a reasonable basis for reporting the practitioner's conclusion(s) on the financial statements? To what extent are the illustrative detailed procedures contained in Appendix 2 to ISRE 2400 used in practice?

31. A few respondents¹⁷ commented on the need for clarity in a revised ISRE 2400 about the work effort expected in a review of financial statements. They were of the view that:

- practitioners are obliged to follow a procedural approach under the current concept of "moderate assurance", but that there is insufficient guidance to determine when this assurance level is achieved (NivRA); and

¹⁵ AICPA; FEE; ICAEW; CICA; AUASB; IBE-IRE; CNCC; KPMG; APB; NZICA; IRBA; IEC; IFAC SMPC; NFPSAC.

¹⁶ Paragraph 11, regarding agreement of the terms of the engagement.

¹⁷ APB; CICA; NivRA

- the standard needs to be specific about the nature and extent of procedures that need to be performed in order to define a moderate level of assurance (APB).
32. Some respondents¹⁸ mentioned a variety of factors that influence practitioners' assessment of the work effort required for a review of financial statements. The main drivers were identified as:
- the level of assurance required for the engagement under the standard; and
 - requirements set out in the standard, including performance of minimum procedures; and
 - the practitioner's assessment of the ongoing results of procedures performed, applying professional judgment to understand whether the required level of assurance has been obtained.
33. Other respondents¹⁹ noted a range of influencing factors in addition to those mentioned in the Consultation Paper (paragraphs 42 – 44), including factors related to:
- the nature of the entity and its management and other staff (including compensation arrangements);
 - the complexity of the engagement (including whether the practitioner applies a risk-based approach, and uses the work of specialists) and of the reporting framework applied by the entity in its financial statements;
 - the nature of the entity's business, its related accounting and reporting systems, and the practitioner's level of knowledge of the business and the economic environment;
 - the practitioner's prior experience of the client, and of past errors/adjustments made in the client's financial statements; and
 - materiality considerations, and the practitioner's assessment of the reliability of evidence obtained for reporting the conclusion;
34. Regarding use of the illustrative detailed procedures contained in Appendix 2 to ISRE 2400, most respondents noted that these are:
- helpful, but should be viewed as guidance rather than as required procedures²⁰;
 - commonly used in practice/helpful to practitioners, but need to be updated²¹;
 - useful, but that practitioners should not be limited to these procedures (KPMG; IEC).

One respondent (APB) noted that the status of the Appendix is unclear.

¹⁸ AICPA; CICA; FEE; IBE-IRE; NZICA.

¹⁹ FEE; ICAEW; AUASB; IFAC SMPC; IRBA.

²⁰ CNCC; FEE; IFAC SMPC; IBE-IRE.

²¹ AICPA; AUASB; CICA; NZICA; NivRA.

Risk Assessment Procedures

6. How should a practitioner performing a review of financial statements address engagement risk when performing the review?
7. Would the nature, timing and extent of review engagement procedures be significantly different between a review engagement based on performance of procedures without an explicit assessment of risk of misstatement in the financial statements, and a review engagement where a risk-based approach is applied to assess and respond to those risks? Would the costs of the engagement differ significantly?

35. **Regarding Question 6**, one respondent (CNCC) noted that ISRE 2400 makes no reference to the need to assess the risk that the financial statements being reviewed may be materially misstated. In the respondent's view, the approach to performance of reviews in ISRE 2400 is based mainly on performance of limited review procedures.
36. Regarding the need to address risk assessment in a revised review engagement standard, respondents commented as follows:
- the absence of a focus on a risk-based approach to reviews is believed to be driving practitioners to do more work than may be warranted in some cases (perceived as a factor contributing to rising costs of performing reviews) (CICA).
 - providing guidance about addressing risk when performing a review would reduce the diversity in practice that currently exists (AICPA).
 - the approach to risk assessment in review engagements should be carefully considered to avoid increasing work effort and cost to a level that is not warranted in view of the 'limited assurance' objective of a review engagement (IRBA; IEC; CICA).
 - applying a full risk-based approach to reviews along the lines of the approach applied in the ISAs will make it difficult to distinguish a review from an audit. In addition, the formalized, more comprehensive risk assessment applied in an audit is not needed for a review²².
37. Respondents²³ were generally of the view that identification and assessment of the risks of material misstatement in the financial statements are necessary to meet the objective of a review of financial statements. The engagement risk present in performing a review should be reduced to a level that is acceptable for a limited assurance engagement.
38. However, one respondent (APB) did not support the use of risk assessments to determine the nature, scope and extent of procedures to be performed for a review, as in its view the standard needs to definitively specify the procedures required to perform a review.
39. Among respondents who support use of risk assessment in reviews, there were differing views about how this should be done.

²² APB; CICA; FEE; IBE-IRE; IFAC SMPC

²³ AICPA; AUASB; CICA; CNCC; FEE; IFAC SMPC; IBE-IRE; KPMG; IRBA; NZICA; NIVRA.

- Three respondents (AUASB; KPMG; NFPSAC) were of the view that the approach to risk assessment should be explicit and be broadly consistent with that for audits. A modification to the risk assessment approach that one respondent (AUASB) suggested would be appropriate for review engagements is that the assessment should be carried out mainly with reliance on management's response to enquiries, with some verification of those responses to gauge the integrity of management responses and to contribute to the overall review strategy. Another respondent (CNCC) was of the view that the practitioner should apply professional judgment to adapt the risk assessment procedures applied for an audit engagement to reviews.
- Several respondents²⁴ were of the view that there needs to be an emphasis in a revised ISRE 2400 on a proper treatment of the consideration of risk as an essential part of performing review procedures. They suggested that effective risk assessment can be done in the following ways for a review (in less scope and depth than in an audit):
 - Practitioners should assess the risk of material misstatement occurring in the financial statements as an integral part of proper performance of the enquiry and analytical review.
 - The scope of the risk assessment depends on the nature, size and circumstances of the business, general market conditions, and the practitioner's professional judgment, having regard to the nature of the entity and its environment including internal control. It should be sufficient for the practitioner to form an expectation about the key risks of misstatement, which drives the design of further procedures for the review, and to be able to document that expectation.
 - The scope of the risk assessment should be on the likely risk of material misstatement at the overall financial statement level. This can be achieved by an assessment of this overall risk by reference to the practitioner's assessed risks of material misstatement in key items in the financial statements.

40. One respondent (ICAEW) suggested examples of circumstances that would require the practitioner's greater consideration for risk assessment purposes:

- a new client, due to the need to obtain a knowledge and understanding of the entity and its business;
- an entity that has experienced a major increase or decrease in size during the year;
- a commercial trading entity (in contrast to a non-trading entity, or a holding entity).

41. A few other respondents suggested that risk assessment for reviews of financial statements should extend also to:

- addressing risk at the overall engagement level, including risks that may result in adverse consequences for the practitioner as a result of association with the client (for example, the risk of being associated with financial information that is misleading) (AUASB).

²⁴ FEE; ICAEW; CICA; IFAC SMPC; IBE-IRE; IRBA; NZICA

- the risk of misstatement due to fraud and non-compliance with laws and regulations (NZICA).

42. **Regarding Question 7**, there were mixed responses. One respondent (APB) stated it is not known whether procedures and engagement costs would differ; another (NFPSAC) noted that it is not possible to quantify the difference in costs of the engagement.
43. Some respondents²⁵ were of the view that a risk-based approach is designed to maximize efficiency and effectiveness in assurance engagements. Thus, taking this approach in reviews would likely increase the efficiency and effectiveness of review procedures.
44. A few respondents (FEE; IBE-IRE; IFAC SMPC) reiterated the view that main risk in applying the risk-based approach to reviews can be minimized if risk assessment is made an integral part of performing the review procedures and if the practitioner applies sound professional judgment to the process (ICAEW).
45. Two respondents (FEE; IBE-IRE) noted examples of circumstances where performance of reviews may be more economical than audits, although the level of assurance achieved in the former may be lower.

Internal Control

8. In general terms, what procedures are needed to obtain an understanding of the entity's internal control over financial reporting for purposes of performing a review of financial statements?
9. If the entity does not have internal controls that would prevent or detect occurrence of misstatements in the entity's financial statements, what are the implications for the practitioner regarding the entity's internal controls for the purpose of the review?

46. **Regarding Question 8**, responses differed significantly. Most respondents²⁶ were of the view that a practitioner performing a review should obtain an understanding of the entity's internal control over financial reporting through enquiry and discussion with management, in order to:
- understand how the entity produces its financial information and
 - be able to design review procedures responsive to the practitioner's assessment of the risk of material misstatement.

It was acknowledged that the practitioner's knowledge and understanding of the entity's internal control will be significantly less than that obtained in an audit. One respondent (AICPA) was of the view that a review should not require an understanding of internal control.

47. A few respondents (APB; NIVRA; ICAEW) discussed the circumstance of reviews undertaken for smaller entities, where internal control is often informal or underdeveloped. In this circumstance, it was suggested that consideration of internal control can be replaced by a consideration of alternative factors that contribute to reliability of accounting information, e.g.

²⁵ AUASB; CICA; IRBA; NZICA; NFPSAC

²⁶ CICA; AUASB; IFAC SMPC; IBE-IRE; CNCC; KPMG; NZICA; IEC; NFPSAC

whether the accounting records are likely to provide a sound ‘accounting base’ for the financial statements. Some respondents (APB; ICAEW) suggested that the key consideration is that there should be reliable accounting records supporting preparation of financial statements because successful performance of analytical procedures requires reliable underlying data.

48. Two respondents (AUASB; NFPSAC) were of the view that the practitioner should obtain an understanding not only of the control environment but also of key controls that management depends on to prevent or detect material misstatements in the financial statements. Further, they suggested that the practitioner should verify the effectiveness of a selection of such controls to gauge their integrity and to contribute to the practitioner’s overall review strategy.
49. **Regarding Question 9**, some respondents²⁷ were of the view that practitioners should not accept a review engagement for an entity that does not have internal control that would prevent or detect material misstatements in the financial statements. The existence of significant deficiencies in internal control may have such a significant impact on the nature, timing and extent of the risk assessment and the practitioner’s ability to perform review procedures (for example, analytical review) that the practitioner may not be able to complete the engagement.
50. Respondents²⁸ suggested that in such circumstances:
- the practitioner would tailor the procedures to reduce engagement risk to the acceptable level (AICPA). Such procedures may include additional enquiries of management with respect to potential misstatements, including those due to fraud, and other specific procedures judged appropriate in accordance with a risk-based approach.
 - the practitioner could consider whether the limited assurance required for a review engagement can be obtained by performing other appropriate procedures, similar to substantive procedures performed for an audit, to detect material misstatements and to the extent necessary to supplement enquiry and whatever analytical procedures can be done on a meaningful basis. However it was recognized that this approach would not be consistent with what is expected in a review engagement (CICA).
51. A few respondents (FEE; CNCC; IFAC SMPC) discussed the implications when a practitioner becomes aware of a lack of effective internal control once a review engagement is underway. They suggested that practitioners would need to apply professional judgment to evaluate the effect of the inadequate internal control on their ability to perform effective review procedures to complete the engagement (including such additional procedures as may be needed to reduce engagement risk to the acceptable level).

Enquiry Procedures

10. Does ISRE 2400 place appropriate emphasis on the use of enquiry as a source of evidence in a review engagement? To what extent, if at all, do you think use of enquiry in an engagement to review financial statements should differ from its use in an audit?

²⁷ FEE; CICA; IFAC SMPC; CNCC; KPMG

²⁸ CICA; IBE-IRE; IRBA; AUASB; NZICA; NFPSAC

52. In view of the role of enquiry as a primary source of evidence in a review engagement, several respondents²⁹ suggested that the emphasis on use of enquiries should be strengthened in a revised standard.
53. Reasons provided in support of this view include:
- the level of reliance on enquiries to obtain the necessary level of assurance is likely to be greater in a review than in an audit (ICAEW). In a review, practitioners may rely on the enquiry results to express the review conclusion, in the absence of anything to suggest they should not do so, and subject to the results of performing other required procedures such as analytical review.
 - when properly used, enquiry is a powerful procedure for obtaining evidence in the context of a review, particularly when practitioners have a high level of competence in using enquiries to obtain evidence (FEE; IBE-IRE; CNCC; APB)
54. One respondent (CICA) stated that the emphasis on enquiry in ISRE 2400 is appropriate, but that there can be a risk of placing too much reliance on responses to enquiries. However this risk may be viewed as acceptable in the context of the limited assurance that is expected in a review.
55. Two respondents (APB; NZICA) noted that the effectiveness of enquiry procedures in reviews is influenced by factors such as:
- the ability of those persons who represent the ‘responsible party’ (management and other senior officials) to answer the practitioner’s enquiries. For example, smaller entities may not have management with sufficient financial expertise; and
 - management’s integrity. If management does not provide accurate answers to the practitioner’s enquiries in order to serve self-interested motives, there is greater potential for undetected misstatements. However, the latter problem can be offset to some extent by obtaining management representations to provide further support for the practitioner’s review conclusions.
56. A few respondents (ICAEW; AUASB; AASB) encouraged the provision of further guidance on the application of enquiry procedures in a revised ISRE 2400, particularly regarding what enquiry procedures are expected to achieve.
57. Respondents were of the view that the role of enquiries is different in review engagements because they are a primary source of evidence for the review conclusion, and that procedures should be planned and designed with that factor in mind.
58. Other respondents³⁰ noted that corroboration of responses to enquiries is also important, acknowledging that the quality and extent of corroborative procedures will vary depending on the practitioner’s professional judgment of what is needed to obtain the required level of assurance.

²⁹ FEE; ICAEW; CNCC; IRBA; AUASB; NFPSAC

³⁰ AICPA; AUASB; CNCC; KPMG

59. One respondent (IRBA) noted that, given the level of assurance in a review, the expectation that management's responses to enquiries will be corroborated is different than in an audit. Another respondent (CICA) noted that a revised ISRE 2400 should emphasize that enquiry, analysis and discussion are meant to be used in combination so that there will be a level of corroborative evidence obtained, consistent with the objective of a review engagement.
60. Finally, one respondent (IEC) suggested that the review report should highlight the limitations of evidence (including that obtained from enquiry) in a review (the respondent suggested some wording to that effect).

Analytical Procedures

11. Does ISRE 2400 provide sufficient guidance on how to apply analytical review procedures effectively in an engagement to review financial statements? If not, what additional guidance might be provided to assist practitioners?
12. To what extent, if at all, do you think use of analytical review procedures in a review engagement should differ from how it is used in an audit engagement?

61. **Regarding Question 11**, several respondents³¹ were of the view that a revised ISRE 2400 should include additional guidance on the performance of analytical review procedures.
62. Most of those respondents suggested that the parts of ISA 520 (Redrafted)³² that are essential and relevant to reviews should be included in a revised ISRE 2400 or, as a minimum, that the conceptual guidance provided in that standard should be included. One respondent (NZICA) suggested that the guidance developed by the AICPA is a good example of relevant guidance.
63. A few respondents (AUASB; IFAC SMPC; APB) expressed the view that ISRE 2400 does not provide sufficient guidance on how to apply analytical procedures, and it was also noted that these procedures are often applied poorly in practice (IFAC SMPC). The following were suggested as aspects of analytical procedures for which additional guidance would be useful:
- the premise(s) under which analytical procedures can be used, such as reliability of data;
 - objectives to be achieved, for example in planning/risk assessment; as evidence to support the review conclusion or for purposes of evaluating the overall review conclusion;
 - use of different types of analytical procedures (including ratio analysis and comparisons);
 - documenting and using results obtained from performing analytical procedures;
 - matters to consider when applying those procedures when the entity is small or a 'micro-entity' (NFPSAC).

One of these respondents (APB) expressed the view that what is needed is more specification of the analytical procedures to be undertaken for the review.

64. Two respondents expressed different perspectives on this question:

³¹ AICPA; AASB; AUASB; CNCC; FEE; IFAC SMPC; IBE-IRE; NFPSAC.

³² ISA 520 (Redrafted), "Analytical Procedures".

- NIVRA suggested that the standard should simply refer to the relevant ISA (ISA 520); and
 - IEC stated the view that Appendix 2 of ISRE 2400 provides examples that are an excellent guide.
65. **Regarding Question 12**, consistent with responses made in relation to the role of enquiry procedures in a review engagement, many respondents³³ were of the view that, given the role of analytical procedures as a primary source of evidence in a review engagement, the practitioner places greater reliance on the performance of such procedures to obtain evidence in a review than in an audit.
66. Other differences noted in relation to performance of analytical procedures in the review and audit engagement settings include:
- due to the limited assurance obtained in a review, the procedures would not have the same breadth, depth or rigour as those performed in an audit (CICA; IBE-IRE). One respondent was of the view that the rigour of the procedures in a review should not be materially different from that in an audit (IFAC SMPC);
 - the precision of the procedures, and of the expectations the practitioner develops concerning the expected results of those procedures, will differ (AICPA);
 - a greater risk that results of analytical procedures may not be interpreted appropriately in a review (IRBA), for example, if the practitioner does not have sufficient knowledge and understanding of the entity and its business;
 - the extent of corroboration of the results of the procedures may not be as comprehensive as in an audit³⁴. For example, it may be limited to areas where risk of material misstatement is identified at the financial statement level (and not extend to the assertion level);
67. One respondent (AUASB) expressed the view that the objectives for use of analytical procedures should not differ between a review and an audit. Other respondents (APB; CICA; NZICA), however, expressed views on how analytical procedures should be applied in a review compared with in an audit. They stated that the approach is ordinarily different because the main purpose for these procedures in a review is to obtain evidence to support expression of the review conclusion whereas in an audit, these procedures are performed more widely during different phases of the audit).
68. Another respondent (APB) suggested that the use of analytical procedures in two particular phases of the engagement should be emphasized in a revised review standard, these being:
- (i) as a risk assessment procedure and
 - (ii) as part of forming the overall conclusion about whether the financial statements are consistent with the practitioner's overall understanding of the entity.

³³ ICAEW; IFAC SMPC; IBE-IRE; KPMG.

³⁴ ICAEW; IFAC SMPC; IBE-IRE; KPMG; NFPSAC

Considerations Where Circumstances Warrant Performance of Other Procedures

13. What situations might require a practitioner performing a review to consider whether, based on results of procedures performed to obtain evidence for the conclusion on the financial statements, performance of additional procedures is necessary to ensure the engagement risk is reduced to an acceptable level for the engagement?
14. What factors should the practitioner consider to determine the nature and extent of further procedures required to reduce the engagement risk sufficiently to be able to express the conclusion on the financial statements?

69. **Regarding Question 13**, several respondents³⁵ were of the view that, as overarching principles, the following situations should cause a practitioner to consider performance of additional procedures:

- when matters come to the practitioner's attention during the review that cast doubt about the plausibility of the financial statements (CICA);
- when the results of initial procedures indicate the probability that one or more material misstatements exist in the financial statements or, if a risk-based approach has been applied to the engagement, when the assessed risk of material misstatement is high (FEE; NFPSAC; AUASB);
- when the practitioner believes that such additional procedures are warranted in order to obtain the limited level of assurance required for a review (KPMG).

70. A number of respondents³⁶ set out more detailed circumstances that would warrant consideration of additional procedures. For example:

- inconsistencies in evidence obtained;
- responses to enquiries or results of analytical review procedures that do not seem plausible in the engagement circumstances;
- the detection of misstatements, or existence of matters that suggest the need to make a material adjustment to the financial statements;
- existence of matters that cause concern regarding the entity's ability to continue as a going concern, or regarding a potential material subsequent event;
- non-compliance with laws or regulations that could have a material affect of the financial statements.

One respondent (IFAC SMPC) expressed a reservation about incorporating examples such as these into the requirements of a revised standard to avoid the risk that practitioners may not exercise proper professional judgment. It suggested that these examples would be more appropriate for guidance, and that requirements to perform additional procedures should be more principles-based, emphasizing the need for professional judgment.

³⁵ FEE; AASB; AUASB; IFAC SMPC; KPMG; NZICA

³⁶ AICPA; AUASB; CICA; ICAEW; IFAC SMPC; IBE-IRE

71. One respondent (ICAEW) stated that it should be left to practitioners to determine what would constitute a significant risk of material misstatement that would need to be addressed by additional procedures. However another respondent (APB) cautioned that without clear guidance on this aspect of performance of reviews there is a risk that either:
- (i) very little work will be performed (with possible diminution of the value of the review conclusion); or
 - (ii) too much additional work will be performed, moving the review and the associated cost closer to an audit but with only a review conclusion expressed.
72. A few respondents offered the following views regarding performance of additional procedures to corroborate evidence obtained from enquiry and analytical procedures:
- performance of additional corroborative procedures is prudent in view of the level of reliance a practitioner places on enquiry and analytical review in a review engagement, but those additional procedures should be done only on a test-basis having regard to identified risks and exercising proper professional judgment (AUASB);
 - practitioners do not seem to be comfortable with the idea of scoping out corroborative testing to supplement the evidence obtained from enquiry and analytical review procedures. If a revised review standard is to include the possibility of extending the work for a review to obtaining corroborative evidence, it will need to also include an indication of when and how practitioners should take the decision to do so. If the threshold for the decision to include corroborative procedures is not clear, then this may compromise consistency in the approach to performance of reviews of financial statements, and in the associated level of assurance (APB).
73. The fundamental question two respondents highlighted (APB; IRBA) is whether the practitioner's overall approach in a review should be that when results of the procedures performed (enquiry and analytical review, supplemented by additional procedures judged necessary by the practitioner) indicate the likelihood that the financial statements are, or may be materially misstated, the practitioner should:
- (a) modify the review conclusion, if the practitioner assesses that insufficient evidence has been obtained to provide a reasonable basis for the conclusion without modification; or
 - (b) extend the procedures to resolve the question of whether the financial statements are materially misstated, to enable expression of an unmodified conclusion in the review report.
- A revised review standard should clarify the approach practitioners should follow, bearing in mind that the concept of limited assurance needs to be preserved, and that the main incentives for having a review instead of an audit recognized (typically to reduce the work effort required and cost of obtaining assurance) (APB; IEC; NFPSAC).
74. This leads into the responses to **Question 14**, which were mixed. Two respondents (AUASB; IFAC SMPC) noted a range of different types of factors that practitioners should consider to assess the nature and extent of further procedures required.
75. One respondent (CICA) was of the view that the nature and extent of additional procedures will be determined by the nature and extent of the matters that gave rise to the practitioner's

concerns about the plausibility of the financial statements, and the effect those matters have on the practitioner's assessment of the risk of material misstatement. Options suggested are:

- more extensive application of the same procedures (enquiry, analytical review and discussion procedures) or application of different types of enquiry and analytical review procedures;
- when needed (in relatively rare circumstances), application of procedures the nature, timing and extent of which are similar to procedures carried out in an audit (but performance of those types of procedures will not have the result that the review engagement becomes an audit engagement).

76. A few respondents (ICAEW; NZICA; NFPSAC) suggested that the guiding principle should be that the practitioner needs to reduce the engagement risk for the review engagement to an acceptable level keeping in mind that the engagement is a limited assurance engagement. Relevant factors to consider are:

- how the practitioner will achieve the overall engagement objective of enhancing the credibility of the financial statements in a way that is meaningful for users, and
- other relevant engagement circumstances.

Considerations Relevant to Whether a Review is Performed by an Auditor, or by a Non-Auditor Practitioner

15. How, if at all, should a review of financial statements performed by a practitioner who is the entity's auditor differ from a review of financial statements performed by a practitioner who is not the entity's auditor?
16. How, if at all, should the nature, scope and extent of the work carried out for an engagement to review financial statements differ depending on whether or not the report issued for the review engagement will be made public, or be published together with the financial statements reviewed?

77. Several respondents³⁷ were of the view that a review performed by a practitioner who is not the entity's auditor should *not* differ from one performed by the entity's auditor in the following respects:

- the level of assurance (NIVRA);
- the extent of, or standard of evidence required in order to reach a review conclusion (ICAEW; IFAC SMPC); one respondent (ICAEW) suggested that the review procedures should be the same with practitioners obtaining enough assurance to issue a limited assurance conclusion, although to do so practitioners doing reviews in these different circumstances may carry out different amounts of work;
- the quality of the review engagement (KPMG);

³⁷ ICAEW; AUASB; IFAC SMPC; KPMG; APB; NZICA; NIVRA; IEC

- the work level applied to perform the engagement (APB);
 - the standards to be applied when performing the engagement (AUASB);
 - the end product, ie the review report (CNCC).
78. Most respondents recognized that when an entity's auditor performs a review of the entity's financial statements, the auditor's audit-based knowledge of the entity influences performance of the review engagement. The following examples were given of how that influence affects the review undertaken by the auditor:
- the auditor has a deeper understanding of the entity as a result of performing the audit engagement (CNCC);
 - the auditor's audit-based knowledge influences the auditor's professional judgment applied to plan and perform the review (FEE; IFAC SMPC; AICPA);
 - the way evidence is gathered for the review may be different because of the existence of knowledge gathered during an audit (ICAEW);
 - the auditor experiences 'economies of scale' when performing the review engagement (NZICA); fewer procedure for obtaining knowledge of the entity as the practitioner already has "audit knowledge" of the entity, which can be used for purposes of the review (IRBA); the time spent on certain components of the engagement can be expected to be different (for example on the planning phase, consideration of risk and obtaining knowledge of the client) since this information would already have been gathered (IFAC SMPC);
 - it might be more effective for an entity's auditor to rely on internal control (if tested as part of the audit) (NIvRA);
79. A few respondents (ICAEW; CICA; NFPSAC) noted that auditors typically perform reviews of financial statements that are in the form of interim financial statements. On this point, a few respondents were of the view that this sort of review should be distinguished in the Standards applicable to review engagements, as is currently the case with ISRE 2410³⁸.
80. One respondent (IEC) expressed the view that a user of the financial statements should be able to have an expectation, where the review is performed by the entity's auditor, that the auditor has a deeper knowledge of the company (than a non-auditor practitioner).
81. One respondent (CICA) noted that in its jurisdiction (Canada) auditors typically carry out reviews of interim financial statements of public listed companies. The respondent pointed to the following factors that make such reviews significantly different from a review of annual financial statements by a practitioner who is not the entity's auditor:
- Due to the auditor having far deeper audit-based knowledge, the typical users would reasonably have higher expectations of the auditor's ability to detect material misstatements, than is the case for a review of annual financial statements by a non-auditor.
 - Anecdotally, the risks of material misstatement occurring and not being detected during an interim review are significantly higher than such risks in a review of annual financial

³⁸ AICPA; FEE; ICAEW; IBE-IRE; IEC.

statements, for example because: interim information is inherently more imprecise than annual information (for example, in relation to estimates of income tax payable for the financial year); typically deadlines for preparing and reviewing interim financial information are tight, and as a consequence errors are more likely to occur and go undetected.

82. On respondent (APB) emphasized that while the work level should be much the same whether a review is performed by an auditor or a non-auditor practitioner, the problem is determining the level of knowledge that the non-auditor needs to obtain before being able to execute the limited procedures for the review effectively.
83. A few respondents (IBE-IRE; NZICA; AUASB) expressed a view on the ‘level of knowledge and understanding’ a non-auditor practitioner should be expected to apply to performance of a review of financial statements, relative to that which an auditor would need to perform an audit of financial statements:
- Given that the lower level of assurance required for a review than for an audit, it may not be necessary for a non-auditor practitioner to develop the level of knowledge equivalent to that which an auditor would need to audit financial statements (IBE-IRE; NZICA) (including for reasons of cost-effectiveness).
 - The circumstance of a non-auditor practitioner performing a review is no different from that of an auditor recently appointed to perform a review who does not possess the same level of understanding of the entity as the predecessor auditor. ISRE 2410 addresses this circumstance by requiring the recently appointed auditor to “obtain an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both annual and interim financial information”. (AUASB)
84. One respondent (IRBA) commented on the expected effect on the level of assurance obtained for a review of financial statements where a non-auditor practitioner performs the review, with reference to the practitioner’s level of knowledge and understanding of the client entity and its business. If the practitioner performing the review is not also the auditor of the entity, the practitioner cannot be assumed to have a knowledge of the business needed to perform an audit. As a consequence, a non-auditor practitioner’s professional judgment is less likely to be informed by the practitioner’s knowledge of the entity than in the case of an auditor.
85. This factor is viewed by a few respondents (APB; IRBA) as an important consideration in developing a revised ISRE 2400. If consistency is considered an important objective to be achieved in the performance of review engagements, it will be important to address the extent of procedures a practitioner should perform in a review of financial statements, otherwise the work effort in reviews will vary substantially from one practitioner to another (see also the discussion of ‘level of assurance’ at question 2, paragraphs 16 - 19).

Considerations Relevant to Whether the Review Report will be Made Public

16. How, if at all, should the nature, scope and extent of the work carried out for an engagement to review financial statements differ depending on whether or not the report issued for the review engagement will be made public, or be published together with the financial

statements reviewed?

86. Most respondents³⁹ were of the view that the nature, scope and extent of work carried out for a review of financial statements should not differ based on whether or not the review report is published.
87. Respondents⁴⁰ noted various additional points, as follows:
- when the report is expected to be made public, or to be published together with the financial statements, this factor should influence the practitioner's assessment of the engagement risk.
 - whereas a review report is ordinarily published together with the financial statements that have been reviewed, the users of those financial statements and review reports can vary, for example depending on whether the underlying financial statements are 'general purpose' or 'special purpose'. One respondent (IRBA) noted that, in the latter circumstance, the review report should carry a restriction on use to highlight the fact that it is intended for use only by specified users for the specified purpose of the engagement.
88. Other respondents (ICAEW; CICA; NFPSAC) noted that practices may differ among individual jurisdictions, for example, due to the influence of local approaches to risk management and domestic regulatory requirements.

Communication with Those Charged with Governance

17. What are the key matters a practitioner performing a review of historical financial statements should be required to communicate with those charged with governance of the entity?

89. General comments provided on this question in the Consultation Paper were summarized as follows:
- Given the scope and purpose of a review engagement there is less likelihood than in an audit that a practitioner performing a review will become aware of matters that need to be communicated to those charged with governance (CICA; IBE-IRE).
 - Many respondents⁴¹ noted the inherent differences in the governance structures of entities whose financial statements are audited and those whose financial statements are subject to review procedures. As it is typically smaller entities that have their financial statements reviewed, it is often the case that those charged with governance are also the entity's management.
 - One respondent (APB) noted that the requirements of ISA 260 (Revised and Redrafted)⁴² should be the starting point of a consideration of what matters need to be communicated.

³⁹ AICPA; AASB; APB; AUASB; CNCC; FEE; IFAC SMPC; IBE-IRE; NIVRA.

⁴⁰ AICPA; APB; IRBA; NZICA

⁴¹ AIPCA; APB; CICA; FEE; IBE-IRE; IRBA; NIVRA.

⁴² ISA 260, "Communication with Those Charged with Governance".

Other respondents suggested that required communications should be something less than that for an audit (AICPA), or be ‘in-between the requirements for such communication in an audit engagement and a compilation engagement’ (FEE; IBE-IRE; NFPSAC).

90. A few respondents (CICA; ICAEW) commented that paragraphs 64 and 65 of the Consultation Paper adequately set out the matters to be communicated. However, one respondent (IBE-IRE) was of the view that those requirements are geared toward larger entities and would not be suitable or helpful in a review engagement for a smaller entity. Another respondent (IEC) expressed the view that paragraph 27 of extant ISRE 2400 currently sets out the need for such communication in sufficient detail.

91. Others⁴³ suggested additional matters that should be required communications as follows:

- any intention to issue a modified review report.
- material uncertainties that may cast doubt on the entity’s ability to continue as a going concern.
- uncorrected adjustments which could have an effect on the financial statements (whether significant or immaterial).
- any matters, including disagreements with management, that individually or in aggregate could have an effect on the entity’s (annual) financial statements or the review report;
- significant deficiencies in internal control identified during performance of the review;
- potential fraud or illegal acts involving senior management that come to the practitioner’s attention during performance of the review;
- other significant findings;
- compliance with (any relevant) independence requirements.

92. One respondent (FEE) expressed the view that the review standard should not include a list of key additional matters to be communicated, and that practitioners should use professional judgment to determine which matters need to be communicated to those charged with governance/management.

Reporting and Communication with Intended Users

Communication of the Review Engagement Conclusion in Engagement Reports

18. How can a practitioner effectively communicate the concept of a level of assurance that is less than high, as obtained in a review engagement, to the intended readers or users of a review report, so that users will be able to properly estimate the level of confidence they can associate with the review conclusion?
19. Can the term ‘moderate level of assurance’ usefully be restated as a ‘plain language’ term in order to assist users of review reports to better understand the underlying message conveyed by the conclusion expressed in a review report?

⁴³ AICPA; AUASB; IFAC SMPC.

20. What form of expression of the conclusion on the financial statements in the review report might increase the perceived usefulness of a review as an alternative form of assurance engagement? Would a different expression of the practitioner's conclusion other than in negative terms increase readers' or users' understanding of the level of assurance conveyed and, if so, how should the practitioner's conclusion be expressed?
21. Given the limited work effort ordinarily undertaken for a review engagement (i.e. enquiry and analytical review procedures), what level of detail is appropriate to properly inform readers or users of the review report about the scope of the review engagement and the work undertaken for the engagement? Should practitioners be permitted to use a flexible format for their review reports to communicate the nature of the work undertaken?

93. With regard to **Question 18**, respondents generally acknowledged the challenge practitioners face in communicating the concept of limited assurance, as provided by a review engagement⁴⁴. A few respondents (FEE; ICAEW) emphasized that it is fundamental for a practitioner to communicate the concept of limited assurance to users effectively.
94. One respondent (NFPSAC) noted that there needs to be clear communication at three points in the engagement process: in the engagement letter; in communications with management/those charged with governance; and in the review report. Two respondents (CNCC; NFPSAC) noted the increased importance of clear and appropriate communication when review reports are to be made public.
95. One respondent (CICA) questioned whether users are likely to truly understand the communication under the current approach (that is: stating that only limited procedures have been performed; disclosing the nature of those procedures; stating that an audit has not been performed nor an audit opinion expressed; and providing negative assurance), because:
- (i) they are unlikely to understand the implications of what limited procedures are (not being auditors themselves);
 - (ii) the level of assurance provided by an audit is not well understood, so using that concept as a benchmark to explain other levels of assurance is unlikely to be meaningful; and
 - (iii) the negative wording "nothing has come to my attention" seems likely to be viewed in an overly positive way (for example, signaling that nothing is wrong).
96. Respondents made a number of suggestions about how review reports might more effectively communicate the limited level of assurance associated with a review engagement, for the benefit of users, as follows:
- defining/clarifying the performance of a review in terms of the nature and extent of specific procedures that need to be performed to produce the limited level of assurance for a review engagement (with requirements of standards supporting that approach) (APB);

⁴⁴ AICPA; CICA; FEE; IFAC SMPC; NZICA

- the report should clearly describe the key elements of the work a practitioner has performed for the review and the results of those procedures (HKICPA), with emphasis of the limited nature of assurance obtained as a result of the work performed (NZICA);
 - a definition of the difference between levels of assurance should be attached to the review report (IBE-IRE);
 - the *objective* of a review should be stated in the review report, together with a plain language explanation of the *relationship* between that objective, the (limited) procedures undertaken, and the resultant report in comparison with an audit (AUASB);
 - the report should be more informative from a user perspective (FEE; IRBA) and include, for example, the purpose of the review; the respective responsibilities of management/those charged with governance and the practitioner; the inherent limitations of reviews; a summary of work performed, distinguishing the review from an audit; together with other matters as relevant to the engagement circumstances (for example, where the review is undertaken for financial information that is ‘special purpose’ in nature).
97. Respondents’ views on **Question 19** mainly reiterated the preference many have for the term ‘moderate assurance’ to be replaced by ‘limited assurance’. One respondent (AICPA) noted the need to debate whether a clearer ‘plain language’ report would be more useful to users.
98. Two respondents (APB; NZICA) noted there will be difficulty in obtaining agreement as to a suitable term to communicate limited assurance, including the challenge of identifying a term that will convey the idea of moderate assurance effectively and consistently in different languages. Two respondents (NIvRA; NFPSAC) suggested that this question could be explored with users of review reports.
99. Respondents’ views on **Question 20** were somewhat mixed.
- A number of respondents⁴⁵ expressed the clear view that the negative form of expression of the conclusion is preferable for the main purposes of:
 - (i) communicating a conclusion based on limited assurance; and
 - (ii) differentiating a limited assurance engagement from a reasonable assurance engagement.
- One respondent (NFPSAC) noted it is probably a reasonable compromise between achieving the objective of providing assurance to users and balancing the risks faced by practitioners providing review conclusions.
- Three respondents (FEE; APB; NZICA) acknowledged:
 - (i) the difficulties that users, and also practitioners to some extent, appear to have in understanding the negative form of the expression of the practitioner’s conclusion, and

⁴⁵ AICPA; CNCC; ICAEW; IRBA

- (ii) the consequence of (i) for understanding the value of the engagement (users), and for marketing use of these engagements as alternatives to reasonable assurance engagements with the positive expression of opinion (practitioners).

It was noted that users find this form of expression of the conclusion ‘risk averse’ and difficult to interpret (with some research showing that, in comparison with a positive expression of opinion, users generally find the negative expression of opinion to be confusing and unhelpful).

- One respondent (NZICA) noted that these concerns about the form of the conclusion give rise to the question of whether it enables practitioners to realize the purpose of the engagement, being to enhance the credibility of the financial statements.
 - In contrast with these views, two respondents (AICPA; ICAEW) noted that, in their experience, stakeholders do not appear to have difficulties understanding the ‘negative form of assurance’.
100. A number of respondents (ICAEW; AUASB; APB) suggested that there is scope for further debate about whether the form of report given for a review can be expressed in a positive manner. A few respondents (AUASB; IEC) provided some illustrations of wording that might achieve a more positive expression of the review conclusion. One respondent (APB) expressed a caveat that use of positive wording would still need to achieve the goal of clearly distinguishing a review from both an audit and a compilation.
101. One respondent (NZICA) expressed the view that the drawbacks of the negative form of the review conclusion can possibly be moderated by providing more extensive information in review reports for the purpose of enabling users to better appreciate the value of the conclusion expressed in the report. For example, sufficient information should be given to enable the user to appreciate how the nature and extent of the work performed supports the conclusion. Other respondents (FEE; HKICPA; NFPSAC) suggested that the IAASB should focus effort on supporting the implementation of the review engagement standard, including developing guidance aimed at providing a better understanding of the level of assurance associated with review reports, and education of users.
102. Respondents’ views on **Question 21** were also somewhat mixed:
- There is significant support⁴⁶ for continued use of a standardized format for review reports, rather than a flexible, or “free form” reporting format. Use of a flexible reporting format is not viewed as being a better alternative because:
 - (i) it is thought that it will reduce the consistency of review reports, and the market may be misled by potentially confusing the extent of work with the extent of comfort given, and it could increase the ‘expectations gap’ (IBE-IRE). For example, when the practitioner has undertaken additional work to complete the review and discloses this in the review report, some users may consider that that indicates there were concerns about the financial statements, while others might

⁴⁶ AICPA; CICA; CNCC; ICAEW; IFAC SMPC; KPMG)

consider that the risk of material misstatement is reduced as a result of additional work (ICAEW);

- (ii) it is unlikely that non-accountants would benefit from being provided with details of the nature and extent of procedures performed. Users would be unlikely to understand the implications of use of different types of procedures, or combinations of procedures in the context of the engagement, for reasons that include the technical nature of procedures practitioners apply. Also, users are unlikely to be able to differentiate between levels of conservatism employed by practitioners, and how this factor impacts the work performed for the review. Providing this type of detail in review reports would lead to development of inconsistencies, and would likely be more confusing than helpful to users (CICA; IFAC SMPC); and
 - (iii) it would likely increase liability risk in review engagements (IFAC SMPC).
- A few respondents supported the idea of using a flexible format for the review report⁴⁷, with various suggestions about how that should be done:
 - i) there should be requirements for minimum disclosures (AUASB), and to ensure some minimum level of consistency (NZICA).
 - ii) the more flexible disclosure format outlined in ISAE 3000 should be permitted.
 - iii) the report should be worded in a way that enables the practitioner to explain the link between the (limited) work performed to obtain limited assurance, and the review conclusion expressed in the report (NZICA), in a manner that users are likely to understand.
 - Two respondents (APB; IBE-IRE) suggested that more work is needed to understand how to better communicate with users in the engagement report, including how to:
 - (i) ensure the difference between an audit and a review is communicated to the reader; and
 - (ii) make the review report more descriptive of what has been done by the practitioner.

Other respondents (FEE; ICAEW; NFPSAC) emphasized that addressing the report wording alone is insufficient to ensure users properly understand the type of assurance associated with reviews, and that IFAC and the IAASB may consider taking action that aims to both support the implementation of a revised review engagement, and also increase the awareness of the concepts of reasonable and limited assurance (particularly in the context of the audit or review of financial statements).

The International Standards on Review Engagements

22. Do the review engagement standards need to be complete in themselves so that they ‘stand alone’ as standards separate from the ISAs? If so, which aspects of the ISAs should be incorporated into the review engagement standards?

⁴⁷ AUASB; IRBA; NZICA; NIVRA; NFPSAC.

103. Most respondents were of the view that there should be separate review engagement standards, complete in themselves so that practitioners performing reviews do not need to also refer to the ISAs.
104. Some respondents held a contrasting view, for example suggesting that a revised ISRE 2400 should be stand alone only so far as it concerns the work to be carried out and procedures to be performed for reviews, complemented by references to relevant ISAs, or the Framework, to cover concepts generic to both audits and reviews (such as, the applicable financial reporting framework, compliance and fair presentation frameworks, the acceptability of frameworks, and materiality) (KPMG; NiVRA). Applicability of these concepts in review engagements should be addressed within the ISRE(s) when appropriate, for example, to explain how the concept of materiality is applied in planning and performing a review engagement and in evaluating misstatements identified during the review.
105. Respondents provided the following reasons supporting the view that the review engagement standards should be ‘stand alone’:
- to respond to and meet the objective of the review being an alternative to an audit (rather than a derivative of an audit); and to make a clear distinction between audits and reviews. As the level of assurance given in a review is different from that in an audit, there should be clear and distinct standards providing guidance on how review engagements should be performed (CICA).
 - in jurisdictions where review engagements are common, there are many practitioners who perform reviews but who do not perform audits. It is desirable and useful for those practitioners not to have to refer to, and obtain an understanding of auditing standards when performing a review of financial statements (CICA; NFPSAC).
 - a set of complete, comprehensive standards for reviews would likely enhance the quality of review engagements because there would be increased consistency in application of the standards as the need to analogize to the ISAs would not be required. The problem with there being a need to “cross refer” to parts of the ISAs is that it creates uncertainty as to whether other aspects of the ISAs also apply (CICA; APB).
106. Most responses contained the view that the revised ISRE 2400 should include a comprehensive set of standards; that concepts developed for ISAs which apply in the same way in a review (for example: understanding the entity; materiality; evidence; quality control) should be addressed in the review standard, using the same terminology as is used in the ISAs. One respondent (AUASB) suggested that ISRE 2410 provides a good indication of the requirements that should be in a revised ISRE 2400.
107. A few respondents suggested that review standards should be established with differing levels of reporting attached to them (FEE; IBE-IRE), with the first major difference being between engagements to review financial statements and engagements to review interim financial statements.
108. Some respondents noted that review engagements should not be ‘mini-audits’, given the sorts of environmental factors that give rise to demand for review engagements (instead of audits).

109. It was noted by one respondent (CNCC) that, for purposes of a revised ISRE 2400, it is difficult to determine the work effort needed in relation to subjects such as fraud, estimates, subsequent events and similar when performing review engagements.
110. Another respondent (ICAEW) emphasized that due to the broad range of entities that are exempt from statutory audits, and whose users are not defined by statute, the review standard should be drafted as high level principles that allow practitioners to exercise independent professional judgment.

Appendix 1

List of Respondents to the Consultation Paper

Abbreviation	Category
IFAC Boards and Committees	
IFAC SMPC	Small and Medium Practices Committee
Professional Bodies / National Standard Setters	
AICPA	American Institute of Certified Professional Accountants
APB	Auditing Practices Board (United Kingdom), SME Audit Sub-Committee
AUASB	Auditing and Assurance Standards Board, Australian Government
CICA	Auditing and Assurance Standards Board of the Canadian Institute of Chartered Accountants
CNCC	Compagnie Nationale des Commissaires aux Comptes; Conseil Supérieur de l'Ordre des Experts-Comptables
FEE	Federation des Experts Comptables Europeens
HKICPA	Hong Kong Institute of Certified Public Accountants
IBR-IRE	Institut des Reviseurs d'Entreprises/ Instituut der Bedrijfsrevisoren
ICAEW	The Institute of Chartered Accountants in England and Wales
IRBA	Independent Regulatory Board for Auditors (also a Regulator)
NZICA	Professional Standards Board, the New Zealand Institute of Chartered Accountants
NIVRA	Koninklijk Nederlands Instituut van Registeraccountants (Royal NIVRA)
Firms/Networks	
KPMG	KPMG
IEC	IEC
Other	
NFPSAC NZICA	of Not-For-Profit Sector Advisory Committee, the New Zealand Institute of Chartered Accountants

Appendix 2

Existing Work/Projects Relevant to Revision of ISRE 2400, as mentioned by Respondents to the Consultation Paper

- International Auditing Practices Committee: *Reporting on credibility of information* (1997). This report attempted to interpret assurance as a continuum concept.
- International Auditing Practices Committee: *ISAE 100 International Standard on Assurance Engagements* (2001)
ISAE 100 introduced the concept of high and moderate levels of assurance on which ISRE 2400 is based. However, it failed to define ‘a moderate level of assurance’.
- UK Auditing Practices Board Report: *Findings of the field trials of the Independent Professional Review* (2001)
The field trials were conducted following the illustrative, procedures-based review engagement standard based on ISA 910 (now ISRE 2400).
- International Federation of Accountants (IFAC): *The Determination and Communication of Levels of Assurance Other Than High* (2002)
This research set out the concept of moderate assurance based on a survey of clients and other stakeholders and technical discussion.
- FEE Issues paper: Principles of assurance: *Fundamental theoretical issues with respect to assurance in assurance engagements* (2003)
The FEE Issues paper introduced the concepts of reasonable and limited assurance, explained as relative concepts, to replace high and moderate assurance. ISAE 100 and the distinction between high and moderate assurance gave rise to various technical and practical difficulties as identified in a number of projects including those listed above.
- The IAASB Pronouncement: International Framework for Assurance Engagements and International Standard on Assurance Engagements 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (2004)
The IAASB Framework sets out high-level principles applicable to all types of assurance services. It first adopted the relative concepts of reasonable and limited assurance, amongst other key elements of assurance engagements. ISAE 3000 is the first complete assurance standard based on the IAASB Framework.
- AAF 03/06: *The ICAEW Assurance service on unaudited financial statements* (2006)
AAF 03/06 provides technical guidance on performing limited assurance engagements based on the IAASB Framework. Over the past two years, the ICAEW has consulted practitioners and users, principally in the UK, about their views on the use of audit-exempt company financial information and external assurance. We have also studied the practical experience of our members performing limited assurance engagements.

Summary of Responses to NSS Consultation Paper
IAASB Main Agenda (March 2009)

- Review Engagement Standards issued by the AUASB (Australia):
 - *ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity* in the “Auditing Standards” (issued in 2006).
 - *ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, (issued in 2006).
 - *ASRE 2400 Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity* (issued in 2008, applicable to the review of a financial report (only) for any period).
 - *ASRE 2405 Review of Historical Financial Information Other than a Financial Report*, (issued in 2008, addresses the review of historical financial information that is *not* in the form of a financial report).
- IAASB NSS Staff Consultation Paper on Revision of ISRE 2400 (September 2008)
- FEE *Survey on the Provision of Alternative Assurance and Assurance-Related Services across Europe*.
A survey on the supply or provision of assurance services as an alternative to audit by the members of FEE (and IFAC) Member Bodies across Europe.
- AICPA
 - *Recommendations of the Reliability Task Force. Consideration of an Alternative Framework for Compilation and Review Engagements*. (March 2008)
 - Exposure Draft of Proposed Statement on Standards for Accounting and Review Services: *Applicability of Statements on Standards for Accounting and Review Services*. (November 2008)