

**Engagements to Review Financial Statements (the Practitioner's Objectives)  
—Issues and IAASB Task Force Proposals****Matters for Discussion***ISRE 2400: The Practitioner's Objectives*

1. The Task Force has amended the practitioner's objectives in the draft revised standard to address views expressed by the Board at the June 2010 IAASB meeting (see paragraph of this paper). These changes flow through to the practitioner's report. The Task Force welcomes the Board's views and comments on the amended wording of the objectives.
2. Flowing from the amended objectives, the Task Force also proposes an amended form of expression of the practitioner's conclusion (see paragraphs 8-9). Does the Board agree with the revised wording of the conclusion?
3. There was some lack of clarity in the draft standard presented in June about how the work effort for a review is performed. The Task Force proposes amendments to clarify the approach for the work effort (see paragraphs xx). Does the Board agree with these amendments?

*Basis of the Revised Standard – The International Framework for Assurance Engagements*

4. The Task Force believes the amended wording describing the practitioner's objectives should reflect the concepts relating to limited assurance engagements as described in the *International Framework for Assurance Engagements*<sup>1</sup> ('the Framework').
5. Summarizing the Board's overall views and comments about the practitioner's objectives as discussed at the June meeting, the Board was of the view that the statement of the practitioner's objectives should:
  - (a) Communicate the limited assurance nature of the engagement;
  - (b) Describe the objectives with reference to the engagement output, i.e. the conclusion expressed on the financial statements as a whole, and the basis for the conclusion (to convey the limited assurance nature of the engagement);
  - (c) Include the need to obtain sufficient appropriate evidence (which the Task Force proposes to characterize as 'review evidence'), as the basis for expressing the conclusion in the required form, that is 'the negative form conclusion'. The evidence obtained establishes the 'meaningful basis' for expression of the conclusion; and
  - (d) Clearly characterize the work effort for the engagement as being procedures-based, where the work effort is directed at performing procedures that are sufficient to provide a meaningful basis for expression of the conclusion.

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<sup>1</sup> International Framework for Assurance Engagements, paragraphs: 11, 17(b)(iii)and(iv), 39, 48, 50, 53, 59.

### **Proposed amended statement of practitioner's objectives**

6. The Task Force proposes the following amended wording (a marked-up up version showing the changes from the draft wording as presented at the June meeting is provided in the Appendix to this Paper):

*The practitioner's objectives in conducting a review of financial statements are to:*

- (a) Obtain sufficient, appropriate review evidence to enable the practitioner to express a conclusion on the financial statements as a whole. The conclusion is based on performance of review procedures based on the practitioner's knowledge and understanding of the entity and its environment; and*
- (b) Report the practitioner's conclusion on the financial statements as a whole whether, based on the work performed, matters have come to the practitioner's attention that cause the practitioner to conclude that material amendments are required for the financial statements to be prepared, in all material respects, in accordance with the applicable financial reporting framework.*

### *Amended Description of the Practitioner's Work Effort*

- 7. The practitioner is always guided by the principle of having a reasonable basis for expressing the conclusion, whether the conclusion is modified or unmodified, in accordance with the Framework.
- 8. The basis of evidence is the review procedures (see paragraph below) that are designed and performed based on the practitioner's knowledge and understanding of the entity and its environment and understanding of the applicable financial reporting framework.
- 9. The Task Force has incorporated the above perspectives into the statement of the practitioner's objectives. Does the Board agree?

### **Matter for IAASB Consideration**

- Q2. Does the Board agree with the amended description of the practitioner's work effort in the objectives?

### *Amended Description of the Form of the Practitioner's Conclusion*

- 10. The Task Force proposes to replace the negative form of conclusion that appeared that in the draft standard presented at the June meeting with the following wording for the conclusion:  
  

*“... whether, based on the work performed, matters have come to the practitioner's attention that cause the practitioner to conclude that material amendments are required for the financial statements to be prepared, in all material respects, in accordance with the applicable financial reporting framework.”*
- 11. The rationale for use of the amended wording is that the Task Force thinks it is a clearer way to express the practitioner's conclusion expressed in the negative form in the report. There have been some comments that, based on a technical interpretation of the wording

of the conclusion as presented at the June meeting,<sup>2</sup> that version is confusing to readers - especially in the case of modified conclusions. A contrary view, which supports continued use of the version of the wording as presented at the June meeting, is that this form of conclusion is already in use and has achieved a level of acceptance and familiarity in the marketplace. The Task Force would like to understand the Board's view on the proposed amended wording as compared to the previously proposed wording, and whether the Board has any preference for either form.

**Matter for IAASB Consideration**

Q2. Does the Board support use of the amended wording of the practitioner's conclusion as proposed by the Task Force, rather than the wording presented previously at the June IAASB meeting?

*Amended Description of the Practitioner's Work Effort*

12. The Task Force sees a review of financial statements as having two broad categories of procedures:
- (a) Inquiry, analytical procedures, and certain other procedures (for example, obtaining written representations) that are required for every review engagement (termed 'review procedures' for purposes of the revised standard). Unless the results of these procedures indicate otherwise, the practitioner will have a reasonable basis on which to form a conclusion on the financial statements as a whole expressed in negative form.
  - (b) *Further procedures* that the practitioner performs if results obtained from the review procedures indicate the likely existence of material misstatements in the financial statements. The practitioner must perform further procedures as necessary to be able to either:
    - (i) Conclude that the financial statements are not likely to be materially misstated; or
    - (ii) Determine that material misstatements exist in the financial statements.

The practitioner performs whatever procedures the practitioner considers necessary to establish a reasonable basis for the conclusion in the case of either 12(b)(i) or 12(b)(ii) above. The practitioner's work effort may include any other types of procedures including, if deemed necessary, procedures designed to verify account balances and transactions reflected in the financial statements.

The Task Force believes it is in the public interest that the practitioner should have a reasonable basis to support either form of conclusion. In the case of 12(b)(ii) in particular where the conclusion is modified in respect of the existence of material misstatements in the financial statements, the Task Force believes the practitioner must have sufficient appropriate review evidence to support such a conclusion which

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<sup>2</sup> See paragraph 54(a) of Agenda Item 7-D presented at the June 2010 IAASB meeting, "... *nothing has come to the practitioner's attention that causes the practitioner to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework.* Available at: <http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0208&ViewCat=1299>.

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amounts to a positive statement by the practitioner as to the existence of the misstatements in the financial statements.

**Matter for IAASB Consideration**

Q3. Does the Board agree with the amended description of the practitioner's work effort for the review of financial statements set out above?

## Appendix

**Changes to the section of the draft revised ISRE that contains the practitioner's objectives for the engagement to review financial statements, and related paragraphs**  
(marked-up from the version presented at the June 2010 IAASB meeting, in Agenda Item 7-D)

### Objective

12. The practitioner's objectives in conducting a review of financial statements are to:
- (a) Obtain sufficient, appropriate review evidence to enable the practitioner to express a conclusion on ~~whether anything has come to the practitioner's attention that causes the practitioner to believe~~ the financial statements as a whole. The conclusion is based on performance of review procedures based on the practitioner's knowledge and understand of the entity and its environment. are not prepared, in all material respects, in accordance with the applicable financial reporting framework;
  - and
  - (b) Report the practitioner's conclusion on the financial statements as a whole whether, based on the work performed, matters have come to the practitioner's attention that cause the practitioner to conclude that material amendments are required for the financial statements to be prepared, in all material respects, in accordance with the applicable financial reporting framework. in accordance with the practitioner's findings.

~~*Use of Objectives to Evaluate Whether Sufficient Appropriate Review Evidence Has Been Obtained (Ref: Para. A6)*~~

13. ~~Theis~~ requirements and application and other explanatory material in this ISRE is designed to enable the practitioner to achieve ~~these~~ objectives in paragraph 12.

~~The proper application of the requirements of this Standard by the practitioner is expected to provide a sufficient basis for the practitioner's achievement of the objectives. However, because the circumstances of review engagements vary widely and all such circumstances cannot be anticipated in the Standard, the practitioner is responsible for determining the procedures necessary to fulfill the requirements of the Standard and achieve these objectives. In the circumstances of an engagement, there may be particular matters that require the practitioner to perform procedures additional to those required by this ISRE to meet these objectives.~~

~~*Consequences of Inability to Obtain Sufficient Appropriate Evidence in the Review*~~

14. In all cases where the practitioner cannot obtain sufficient appropriate evidence as the basis for reporting a conclusion on the financial statements in accordance with the objectives in paragraph 12, the practitioner is required under this ISRE to modify the practitioner's conclusion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). In the circumstances where the practitioner issues a report or is required to issue a report for the engagement, and the practitioner is required

to give a modified conclusion but considers that a qualified opinion is insufficient in the circumstances for purposes of reporting to the intended users of the financial statements, the standard requires that the practitioner disclaim a conclusion.

## **Definitions**

16. The following terms have the meanings attributed below for the purposes of this ISRE: (Ref: Para. A8; A12–A13)

*Further procedures* – Additional procedures performed when determined necessary in the practitioner's judgment to obtain sufficient appropriate review evidence.

*Practitioner* – A professional accountant in public practice who conducts the review engagement. The term includes the practitioner or other members of the engagement team, or, as applicable, the firm. Where this ISRE expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “practitioner” is used. “Engagement partner” and “firm” are to be read as referring to their public sector equivalents where relevant.

*Review evidence* – Information used by the practitioner as the basis for forming the practitioner's conclusion on the financial statements as a whole.

*Review procedures* – Review procedures comprise:

- (i) Inquiry and analytical procedures, and other procedures specified in this standard, and
- (ii) In certain circumstances, further procedures.

~~Primarily inquiries of management or those charged with governance, as appropriate, and others within the entity involved in financial and accounting matters, and analytical procedures performed by the practitioner.~~