



May 16, 2011

Via website posting: <http://www.iaasb.org/>

Re: Exposure Draft Comment: **ISRE 2400 (Revised), Engagements to Review Historical Financial Statements**

Dear Sir/Madam:

The Certified General Accountants Association of Canada (CGA-Canada) welcomes the opportunity to comment on the Exposure Draft: **ISRE 2400 (Revised), Engagements to Review Historical Financial Statements**. In addition to providing responses to specific questions, we have also provided additional comments on related matters.

Question 1

Do respondents who are users or preparers of financial statements believe the proposed ISRE will result in an assurance engagement that is meaningful?

Comments

From the viewpoint of the preparers of the financial statements, we are in general agreement with the proposed changes and believe that the proposed revised standard will result in an assurance engagement that is meaningful because an improved review standard can reasonably be expected to facilitate the work of preparers. We would concomitantly expect that the proposed revised standard will support general purpose, as well as, special purpose financial reporting frameworks.

Question 2

Do respondents who are practitioners believe that proposed ISRE 2400 will result in engagements that can be understood and performed by practitioners in a cost-effective manner in a way that clearly distinguishes the engagement from an audit?

Comments

We believe it is important that a practitioner has options to provide negative assurance (review) over the same subject matter where positive reasonable assurance (audit) can be provided. The revised standard appropriately focuses the practitioner's work on areas in the financial statements where material misstatements are likely to arise. We note that the proposed new standard will be better aligned to the clarified ISAs in format as well as perspectives, and, subject to remarks made elsewhere in this response, distinguishes a review engagement from an audit engagement. However, we note that the revised standard does not achieve the objective of becoming a stand-alone standard. As proposed, the revised standard provides little to no guidance on topics such as reporting considerations, emphasis of matter and other

matter paragraphs; the use of the work of experts; or the assessment of misstatements. This deficiency could make it difficult for a practitioner not familiar with the ISAs to perform a review engagement in accordance with the proposed standard. It is our view that the proposed standard is not “self-sufficient” as an understanding of the ISAs is essential to understanding the requirements and application material in the proposed revised standard. Also, we believe that costs are likely to increase to cover some of the additional documentation required. For example, the work on knowledge of client business may increase significantly, relative to the current practice.

Question 3

Do respondents believe that the objectives stated in the proposed ISRE appropriately describe the expected outcome of the practitioner’s work in a review engagement, and the means by which the objectives are to be achieved? Is there any wording in the objectives that might have unintended consequences, or that may blur understanding of the difference between a review and an audit?

Comments

We believe that the proposed ISRE (Revised) describes in general the expected outcome of the practitioner’s work in a review engagement, and the means by which the objectives are to be achieved. We note that the objectives imply negative assurance and appropriately avoid the use of the highly subjective concept of “limited assurance”, which also has the connotation of positivity normally associated with an audit. However, we are concerned that the phrase “evaluating the sufficiency and appropriateness of evidence obtained” may suggest to readers that evidence obtained is closer to audit level assurance. We believe that this phrase is redundant in the context of a review engagement.

Question 4

Do respondents believe that the factors affecting engagement acceptance and continuance, and the preconditions for performing a review under the proposed ISRE, are appropriate and clearly communicated in the proposed ISRE?

Comments

We suggest enhancement in this area by covering the technical training, proficiency, and rules of professional conduct. We are also concerned that the proposals do not contain sufficient discussion to articulate the differences of the risks involved in performing an audit versus a review, and the lower standards required of the latter. In order to facilitate consistent application, additional guidance on risk factors or benchmarks in the context of a review engagement should be provided.

Question 5

The approach to performing a review set out in the proposed ISRE (paragraphs 43 and 44) requires the practitioner to identify areas in the financial statements where material misstatements are likely to arise, based on the practitioner’s understanding of the entity and its environment, and the applicable financial reporting framework, and then to focus the design and performance of inquiry and analytical procedures in those areas.

(a) Do respondents believe this approach is appropriate for a review?

- (b) *Do respondents believe that the requirement and guidance in the proposed ISRE adequately convey this intended approach?*
- (c) *Do respondents believe that the requirements and guidance relating to the practitioner's understanding (explained in paragraph 43), and designing and performing inquiry and analytical procedures (explained in paragraph 44), are sufficient to promote performance of reviews on a reasonably consistent basis with the application of the practitioner's professional judgment and understanding, taking account of the circumstances in individual review engagements?*

Comments

- (a) We agree with the proposed requirement of ISRE 2400 (Revised) that the practitioner should make an initial determination of materiality and revise this determination, as needed, in order to adequately support the conclusion expressed in the review engagement report that the practitioner does not have reason to believe that the financial statements reviewed are not presented fairly, in all material respects. However, in our opinion, the requirements under proposed ISRE 2400 (Revised) may not provide the practitioner with sufficient guidance on the assessment of materiality in order for this standard to operate as a stand-alone standard from ISAs. The proposed standard provides details in its application and other explanatory material on the concept of materiality, but it does not provide any examples of appropriate benchmarks or starting points for the assessment of a materiality level. In order for the revised review standard to operate as a stand-alone standard and provide consistency in practice, we recommend that guidance similar to that contained in the ISAs on the use of benchmarks in determining materiality should be mirrored in the revised standard.
- (b) We consider the preconditions for performing a review, and factors affecting engagement acceptance and continuance, to be useful matters for practitioners. We understand that the proposed standards do not prescribe that practitioners perform a "risk assessment"; yet the words "where material misstatements are likely to arise" in paragraphs 43 and 44 do serve to imply that. Furthermore, in the absence of specific guidance in the context of a review engagement, the discussion in application paragraphs 78 to 84 could be interpreted as similar to a risk assessment as required in the ISAs. If it is not the intention to require such an assessment, this expectation should be clearly stated in the standards. Additional application guidance on evaluating how or where misstatements might arise would also be helpful to practitioners.
- (c) We note that the proposals contain specific requirements on the areas to inquire, including related party transactions, significant accounting estimates, existence of actual or suspected fraud or illegal acts, and non-compliance with laws and regulations. Also, the proposals add a requirement, when designing analytical procedures, to consider the source of the data and its adequacy. This is not clearly defined and could be open to interpretation as this seems more audit-focused. Paragraphs 43 and 44 state that the practitioner should obtain an understanding of the entity and its environment to identify areas in the financial statements where material misstatement are likely to arise in order to focus inquiry and analytical procedures. The distinction between areas that "may be misstated" as opposed to areas where "material misstatements are likely to arise" is ambiguous, and, therefore, it is unclear when audit-type procedures, as opposed to review procedures, are required. Since paragraph 57 does not mention the sufficiency and appropriateness of evidence obtained, it is unclear whether these procedures are required when the practitioner is dissatisfied with the review level evidence obtained, or whether these procedures are always required with the financial statements which may be materially misstated. Paragraph 43 also requires that the practitioner gain an understanding of the entity and its environment. The application guidance paragraphs A78-A80, referring to the initial understanding, do not describe how this understanding must be obtained. However, for subsequent

years, paragraph A81 refers to updating the understanding through review procedures which further implies that the initial, first-year, understanding may require additional audit procedures. We also note that the terminology used in the proposed standard imply obtaining a “positive” level of assurance rather than a “negative” level of assurance. For example, paragraph 48 refers to obtaining sufficient and appropriate evidence from review procedures performed, and paragraphs 43 and 44 refer to the “likelihood” of material misstatement, rather than misstatements that the practitioners might become aware of.

Question 6

Do respondents agree with the requirements and guidance in the proposed ISRE (paragraphs 57 and 58) describing the trigger point at which additional procedures are required? Do respondents agree with the related requirements concerning the practitioner’s response when there are matters that cause the practitioner to believe the financial statements may be materially misstated?

Comments

We consider the requirements and related application guidance on trigger points in paragraphs 57 and 58, where additional procedures are required, to be too broad to meaningfully assist practitioners in determining how to further proceed with the review in an instance of potential misstatement. Without additional specific guidance, the practitioners might not be able to meet the overall objectives consistently.

Question 7

With respect to the practitioner’s review report (as illustrated in Appendix 2 of the proposed ISRE):

- (a) Do respondents believe the report adequately communicates to users the work undertaken by the practitioner for the review?*
- (b) Do respondents believe that the form of the practitioner’s conclusion (that is, “nothing has come to the practitioner’s attention that causes the practitioner to believe...”) communicates adequately the assurance obtained by the practitioner? Is this form of wording of the practitioner’s conclusion preferable to other forms that have been explored by the IAASB as discussed above, including those that use wording perceived as being more positive? If not, please explain and provide alternative wording that could be used to express the practitioner’s conclusion.*
- (c) Is the practitioner’s conclusion expressed in this form likely to be understandable and meaningful to users of the financial statements? Does this form of conclusion achieve the intended purpose of properly differentiating the conclusion reported in a review from the opinion expressed in an audit of financial statements?*

Comments

- (a) We appreciate, subject to the remarks below, the new format of the report that clearly indicates the responsibilities, nature, and scope of work of the practitioner in a review are different from an audit. Moreover, we welcome the presentation of the modifications and the ability to include an “emphasis of matter” or “other matter” paragraph to provide additional information to the reader.*

- (b) We agree with the form used for communicating the practitioner’s conclusion, but also note that the proposed reports provided in Appendix 2 use terminology that implies positive assurance. For example, under the Practitioner’s Responsibility, there is a statement that reads “We believe that the evidence we have obtained in our review is sufficient and appropriate to provide a basis for our conclusion”.
- (c) Subject to the above remarks, we believe that the practitioner’s conclusion expressed in this form is likely to be understandable and meaningful to the users of the financial statements, and achieve the intended purpose of properly differentiating the conclusion reported in a review from the opinion expressed in an audit of financial statements.

Additional Comments

We note that in the proposals, the definition of a compliance framework is missing. We recommend this be clearly defined. We suggest that the proposals should clarify the points of distinction between a “conclusion” reported in a review and the “opinion” expressed in an audit of financial statements. We repeat our reservations, first articulated in our response to ISRS 4410, against the use of the term “historical financial information” in the IAASB pronouncements. This reservation is in anticipation of the increasing use of fair value accounting, relative to historical cost accounting, for the purpose of preparing financial statements in accordance with the Generally Accepted Accounting Principles such as IFRSs. We are concerned that the term “historical financial information” can be misconstrued as “information prepared on historical cost basis.” We believe that synchronising the effective date of ISRE 2400(Revised) with ISRS 4410 (Revised) will achieve efficiency of implementation for both of the revised standards. We note that the proposals require (section 59b) that the practitioners obtain from management the written assertion that “all transactions have been recorded and are reflected in the financial statements”. There is no mention of management’s responsibility for the design and implementation of internal controls to prevent or detect fraud and error. We recommend adding this as a requirement. The proposals also add a requirement (section 67) to consider the impact of unadjusted misstatements on the financial statements, although it does not include any application material on how a practitioner performs this assessment. We suggest more guidance be added on this topic. Similarly, the proposals state two requirements to consider: (1) including an Emphasis of Matter paragraph (section 84) and (2) including an Other Matter paragraph (section 87) in the review report, but without guidance on when they should or should not be included. We suggest more guidance be added on these topics.

Should you wish to discuss the contents of this comment paper or require further elaboration on any of the items presented herein, please do not hesitate to contact Kamalesh Gosalia at kgosalia@cga-canada.org or alternatively the undersigned at rlefevre@cga-canada.org.

Sincerely,

[Original signed by:]

Rock Lefebvre, MBA, CFE, FCIS, FCGA
Vice-President, Research & Standards