



Board Meeting Summary Paper

Subject: IAASB Paper – Item 3 ISRE 2400
*Engagements to Review Historical
Financial Information*

Date: 22 November 2010

AUASB AGENDA ITEM NO. 11(b)(i)-3
Meeting Date: 29 November
2010

Action Required

For Information Purposes Only

Agenda Item Objectives

To inform the AUASB Board on the IAASB's project to revise ISRE 2400 *Engagements to Review Historical Financial Information*.

Background

The IAASB previously announced a project (and taskforce) to redraft and revise ISRE 2400 to take account of the current financial reporting environment for review engagements, and to reflect the *Clarity* format. After numerous drafts of the proposed ISRE 2400 (most recently the draft discussed at the September IAASB meeting), the IAASB taskforce has released another proposed draft version (see Agenda Item 11(b)(i)-3.3), together with a final issues paper (see Agenda Item 11(b)(i)-3.2), with a view to obtaining the IAASB's approval at the December board meeting, for it to be issued as an Exposure Draft.

A summary of remaining significant issues is below:

1. **The Practitioner's Objectives.**

The Taskforce and IAASB have been attempting to balance the importance of obtaining sufficient appropriate audit evidence with the necessarily limited nature of the assurance sought in the review engagement. The taskforce has now recommended that the objective in this respect should include obtaining the appropriate evidential basis for the assurance practitioner to be able to express the conclusion as required. See proposed paragraph 15(a) for suggested wording.

2. **Performance of the Review Engagement**

These issues fall into 2 broad categories:

- (i) Risk Awareness – there has been some issue about the extent of work required by the assurance practitioner in the area of risk assessment, given the proposed ISRE (as for the existing ISRE) does not require a comprehensive risk assessment process to be undertaken by the assurance practitioner.

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The taskforce has sought to clarify the “risk-aware” procedures required by the standard. In summary, the proposed standard requires the assurance practitioner to identify financial statement areas that are *likely* to be materially misstated, to design and perform procedures to respond to these risk areas, and where the results cause them to believe the financial statements may be materially misstated, to then perform further procedures to determine if this is the case or not.

- (ii) Performing further procedures – there has been previous debate between the IAASB and the Taskforce as to the point at which further procedures should be required, as well as the nature and extent of the assurance practitioner’s response, bearing in mind that a review is necessarily more limited in its procedures than an audit. The Taskforce has now specified requirements for further procedures when the assurance practitioner believes the financial statements may be materially misstated – so called “trigger conditions” (see paragraphs 58-59 inclusive). In situations where the assurance practitioner is unable to obtain sufficient appropriate evidence to enable them to conclude on the financial statements, the Taskforce has also included a scope limitation section in the requirements, which takes into account this situation even when the assurance practitioner has performed further procedures.

3. **Illustrative Procedures for a Review under Proposed ISRE 2400**

The current standard includes an Appendix that covers illustrative review procedures that could be possible performed under the ISRE 2400. The Taskforce is still considering whether this Appendix should be replicated in the proposed ISRE 2400 or not, and if replicated, what should be changed, amended, updated or added to, taking into account the changes in proposed ISRE 2400 (for example, whether the list should be general or more specific in its list of procedures down to a individual financial statement line level). The Taskforce has recommended that this be canvassed with ED respondents through the Explanatory Memorandum document, issued as part of the exposure process.

4. **Provisional Effective Date**

The Taskforce is proposing that the ISRE’s effective date be 18-24 months after it is approved as a final standard to give assurance practitioners time to implement and adopt the new standard. Additionally the effective date wording would be “for reviews of financial statements for periods ending on or after XXX”.

Implications for the AUASB

In addition to the issues raised, the draft also reflects numerous changes (i.e. additions, deletions and re-organisations of requirements/guidance) identified by the IAASB and/or the Taskforce at the September meeting, as well as subsequent feedback received by the Taskforce.

The AUASB considers that the issues currently raised with the development of the revised and redrafted ISRE 2400 are appropriate.

Given that ASRE 2400 *Review of a Financial Report Prepared by the Independent Auditor of the Entity* (August 2008), as currently issued, is not designed to be equivalent to ISRE 2400, as it only relates to a review of a financial report by a practitioner who is not the auditor of the entity, the subsequent revision and redrafting of ISRE 2400 will require the AUASB to consider any consequential changes to ASRE 2400.

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It may also require consideration of the potential impact on other Australian Standards on Review Engagements: ASRE 2405 *Review of Historical Financial Information Other than a Financial Report* (which interacts with ISRE 2400 to the extent it also applies to engagements to review other historical financial information), and possibly ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (which the AUASB has issued in *Clarity* format). At this stage, the IAASB has not announced plans to revise or redraft ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, which is not in *Clarity* format.

The AUASB will continue to monitor the development of the revised ISRE 2400, and intends to participate in the Exposure Draft comment process.

Material Presented

- Agenda Item 11(b)(i)-3 Board Meeting Summary Paper
- Agenda Item 11(b)(i)-3.1 Agenda Item 3 Engagements to Review Historical Financial Statements
- Agenda Item 11(b)(i)-3.2 Agenda Item 3-A Engagements to Review Historical Financial Statements – Issues and IAASB Task Force Proposals
- Agenda Item 11(b)(i)-3.3 Agenda Item 3-B Proposed International Standard on Review Engagements 2400 (Revised) (Clean Version)
- Agenda Item 11(b)(i)-3.4 Agenda Item 3-D Engagements to Review Historical Financial Statements – Proposed Flowchart

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