



Hayes Knight

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Ms Merran Kelsall
Chairman
Auditing and Assurance Standards Board
PO Box 204
Collins Street West
MELBOURNE VIC 8007

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Dear Ms Kelsall

RE: Comments on proposed ISRE 2400 (Revised) - Engagements to Review Historical Financial Statements.

We appreciate the opportunity to provide comments on the proposed ISRE 2400 (Revised).

We are responding on behalf of the Hayes Knight Australian Network of firms, each of which is a separate and legal entity.

Our comments and suggestions are included in Appendix 1, but overall we are supportive of the proposed ISRE 2400 (Revised).

Our response to the specific questions are included in Appendix 2.

We would be pleased to discuss any comments further.

Please contact me on (02) 9221 6666 if you require any further information.

Yours faithfully,

Pran Rathod FCPA
Director – Audit Services

Comments on Proposed ISRE 2400 (Revised)

1. **Nature of Procedures Performed**

In accordance with Paragraph 35 of the proposed ISRE 2400 (Revised), the engagement letter shall, amongst others, include the responsibilities of the practitioner and the expected form and content of the report.

Furthermore, the practitioner's report also covers the responsibilities of the practitioner, including the scope of the review.

The responsibilities and scope of the practitioners work in the engagement letter and the Report state:

“A review of financial statements in accordance with ISRE 2400 consists primarily of making inquiries of management and others within the entity involved in financial and accounting matters, applying analytical procedures and evaluating the sufficiency and appropriateness of evidence obtained. A review also requires performance of additional procedures when the practitioner becomes aware of matters that cause the practitioner to believe the financial statements as a whole may be materially misstated.”

In relation to additional procedures, unless these are defined, the user may not understand fully the work effort required in this engagement.

We suggest inserting the following after additional procedures:

“Such as tests of accounting records, through inspection, observation or confirmation.”

Accordingly, the suggested scope be as follows:

“A review of financial statements in accordance with ISRE 2400 consists primarily of making inquiries of management and others within the entity involved in financial and accounting matters, applying analytical procedures and evaluating the sufficiency and appropriateness of evidence obtained. A review also requires performance of additional procedures, such as tests of accounting records through inspection, observation or confirmation, when the practitioner becomes aware of matters that cause the practitioner to believe the financial statements as a whole may be materially misstated.”

2. Practitioner's Report

In accordance with Paragraph 82, the practitioner's report, , shall include amongst others, the following:

“82(f)(ii) – A description of a review of financial statements in accordance with paragraph 83”

In accordance with Paragraph 83 the practitioner shall include in the report amongst others, the following:

“83(d) An audit has not been performed, and had an audit been performed the practitioner may have uncovered material misstatements that could exist in the financial statements reviewed.

The practitioner's review report as per various illustrations do not suggest the above limitation. Whilst the above is communicated to the client, this limitation is not made aware to the user. We suggest the inclusion of this limitation in the practitioner's report.

Response to the Specific Questions

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

Based on our client experience, we believe that the proposed ISRE will result in the assurance engagement being meaningful. However the nature of additional procedures that may be required will need to be clearly stated in the engagement letter and fully understood by client.

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?

The proposed ISRE 2400 will assist the engagement in a cost effective manner. However, it may not clearly identify the scope of review engagement and its limitation. However there would be additional costs in the first engagement relating to understanding the entity and the environment.

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?

The objective is restricted to concluding based on enquiry and analytical procedure. This, we believe should be extended to additional procedures, such as testing of accounting records through inspection, observation and confirmations.

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?

The acceptance and continuity of client relationship procedures are followed as required by ASQCI and in conjunction with this, the proposed ISRE 2400 is appropriate.

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 practicable 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?

The approach is appropriate for a review.

- b) Do respondents believe that the requirement and guidance in the proposed ISRE adequately convey this intended approach?

The guidance adequately conveys the intended approach, and may be used for designing review procedures.

- 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 judgement and understanding, taking account of the circumstances in individual review engagements?

Yes.

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?

Yes.

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 working 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?

Please refer to our comments in General Section.