



By e-mail < Edcomments@ifac.org >

20 May 2011

Our Ref.: C/AASC

Executive Director, Professional Standards
International Auditing and Assurance Standards Board,
International Federation of Accountants,
545 Fifth Avenue, 14th Floor,
New York 10017, USA.

Dear Sir,

**[IAASB Proposed International Standard on Review Engagements 2400 \(Revised\)
Engagements to Review Historical Financial Statements](#)**

The Hong Kong Institute of Certified Public Accountants is the only statutory licensing body of accountants in Hong Kong responsible for the professional training, development and regulation of the accountancy profession. The HKICPA sets auditing and assurance standards, ethical standards and financial reporting standards in Hong Kong.

We welcome the opportunity to provide you with our comments on the captioned IAASB ED on ISRE 2400 for developing guidance relating to review engagements.

We support the proposed plan to revise ISRE 2400 in establishing an international standard as a benchmark for such engagements. Our comments on the Exposure Draft are set out in the attachment.

We trust that our comments are of assistance to you. If you require any clarifications on our comments, please do not hesitate to contact me at ong@hki CPA.org.hk.

Yours faithfully,

Steve Ong, FCPA, FCA
Director, Standard Setting Department

SO/SH/jn

Encl.



ATTACHMENT

**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' COMMENTS ON
THE IAASB PROPOSED INTERNATIONAL STANDARD ON REVIEW ENGAGEMENTS
2400 (REVISED) ENGAGEMENTS TO REVIEW HISTORICAL FINANCIAL
STATEMENTS**

Request for Specific Comments

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

In general, we believe that the revisions to the standard will result in the users or preparers of financial statements better understand the basis for a review engagement.

- 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?**

To clearly distinguish a review engagement from an audit, we would suggest that the introduction section of the standard should briefly highlight the key differences between a "review engagement" and an "audit engagement" and in particular the nature and extent of work performed.

We believe that the amount of work to be ultimately undertaken would be judgemental and determined on a case by case basis.

In addition, we note that IFAC does not propose to include a list of illustrative procedures which are included in the extant standard as it believes such a list may be misunderstood to be a set of default procedures for every review engagement. However, we believe that the inclusion of illustrative procedures, with a clear message that they are provided for illustrative purposes only and will need to be tailored for specific engagements, should be included as they are very useful to small practitioners who are expected to make frequent use of the standard.

- 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?**

We are of the view that though it is stated in paragraph 5 that the review of historical financial statements is a limited assurance engagement as described in the International Framework for Assurance Engagements (the Assurance Framework), the objective of a limited assurance engagement as defined in paragraph 11 of the Assurance Framework should be clearly stated in the proposed ED.

Paragraph 11 of the Assurance Framework states that the objective of a limited assurance engagement is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for a negative form of expression of the practitioner's conclusion.



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?

In general, we support the revision of ISRE 2400 to provide additional guidance on engagement acceptance and continuance, and the preconditions.

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?

We agree this is appropriate for a review engagement.

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

We believe there is scope for the term "likely" in paragraph 43 to be misinterpreted when identifying areas of the financial statements where material misstatements are likely to arise. We support the IAASB in not providing any explicit quantitative definition of likely, however we suggest that it would be appropriate to provide application material that explains what this term means in the context of the practitioner's assessment. For example, the practitioner's assessment is based on consideration of the inherent risk of areas of the financial statements, e.g. complexity, in combination with any entity specific information that comes to the auditor's attention during obtaining an understanding of the entity and its environment. It is the practitioner's judgement, having considered the balance of this information that drives the determination of those areas of the financial statements where material misstatements are considered "likely" to arise.

(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?

We are of the view that additional guidance as suggested in Question 2 above will provide guidance to small practitioners.

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?

We agree with the trigger point at which additional procedures are required and the related requirements.



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?

We believe the report adequately communicates to users the work undertaken for a review engagement.

(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.

We believe currently both practitioners and users of financial statements have an understanding that the phrase "nothing has come to the practitioner's attention that causes the practitioner to believe..." is used to convey the message of limited assurance which is different to the opinion expressed for an audit engagement.

We do not believe that it would be wise to introduce alternative phrases which would create confusion.

(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?

See comments in (b) above.

Other Comments

Below are comments on the drafting of the proposed ISRS 2400 for IAASB's considerations.

8. The scope (paragraph 1) of the standard refers to review of historical financial statements, while the scope of ISRE 2410 (paragraph 2) refers to both interim financial information and financial statements. It would be beneficial to clarify that ISRE 2400 also applies to a review of interim financial information (where not the auditor). It could be clarified that this ISRE is intended to be used to review other historical financial information (such as a single financial statement) as evidenced in the example reports.
9. We note that as currently drafted, it appears that it is IAASB's intention to keep two review standards, i.e. ISRE 2400 and ISRE 2410. We would suggest the IAASB to reconsider whether two separate review standards are still required given that the requirements would still be applicable for ISRE 2410 other than paragraph 43 which the practitioner would already have such information. We would suggest either the two standards should be revised concurrently, or reconsider whether a unified standard could be used.
10. Para A12 sets out the circumstances in which a practitioner would disclaim a conclusion. These circumstances are restricted to a limitation of appropriate evidence. However in the context of an audit, a disclaimer of opinion may also be issued where there are multiple



uncertainties (ISA 705.10). It would appear appropriate for the same circumstance to be applicable in the context of a review.

11. If misstatements have been identified as part of the review, it would appear appropriate for management to provide a specific representation that they consider these to be immaterial and for these to be appended to the representation letter to be consistent with the treatment of these in an audit.
12. The ISRE contains a requirement to gain an understanding of the entity's environment including its accounting system and records etc. (which presumably would extend to relevant controls associated with the accounting system). In the context of an audit, "understanding" of internal controls requires evaluating the design of a control and determining whether it has been implemented (ISA 315.54). It is not clear whether this is the expected level of understanding required in the context of a review.

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