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2 June 2011

Mr. James Gunn
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017 USA

Email address: Edcomments@ifac.org

Our Ref: 2011/JE/TCSC1/IAASB/86

Re: IAASB Exposure Draft of ISRE 2400 "Engagements to Review Financial Statements"

Dear Mr. Gunn:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (SC 1) appreciates the opportunity to comment on the Exposure Draft of International Standard on Review Engagements (ISRE) 2400 "Engagements to Review Financial Statements". As an international organization of securities regulators representing the public interest, IOSCO is committed to enhancing the integrity of international markets through promotion of high quality accounting, auditing, and professional standards.

Members of SC 1 seek to further IOSCO's mission through thoughtful consideration of accounting, auditing and disclosure concerns, and pursuit of improved global financial reporting and auditing. Our comments in this letter reflect those matters on which we have achieved a consensus among the members of SC1; however, they are not intended to include all comments that might be provided by individual members on behalf of their respective jurisdictions.

Basis for Our Comments

We have reviewed this proposed ISRE from the standpoint of considering a global standard that would not have application to either interim or annual financial statements of listed companies and other public interest entities. Thus, we have provided comments herein from

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the standpoint of our general experience with and understanding of attest work and, therefore, have offered only those comments that have come to our attention in this regard.

We are aware that auditor communications, more broadly, are currently a subject of discussion among various constituents and such discussions may result in improvements or changes in the future from what is currently required in auditor and practitioner communications, in particular what is communicated in engagement opinions. Please be aware that we have reviewed this proposed ISRE in the context of current practice in auditor and practitioner communications and have not attempted to factor into our comments the eventual outcome of the current broader auditor and practitioner communications discussions.

We are aware of the Board's plans to reconsider ISRE 2410 *Review of Financial Information Performed by the Independent Auditor of the Entity*. We did not prepare our comments on proposed ISRE 2400 with a broader view to ISRE 2410, thus our comments should not be construed as advance acceptance or agreement on what provisions would be appropriate in ISRE 2410 when it is revised in the future. We will evaluate the proposed ISRE 2410 when it is developed.

Comments regarding content in the Explanatory Memorandum

As we read the Exposure Draft of the proposed ISRE 2400, we found the Explanatory Memorandum to be well-written, understandable, and well-organized. The diagram on page 12 of the Explanatory Memorandum was a helpful aid in visualizing the overall plan of a review engagement conducted under ISRE 2400. We suggest that the IAASB consider whether this diagram might be a useful addition to the standard when issued.

In regard to the statement on page 7 of the Explanatory Memorandum, "Unlike the extant ISRE, the proposed standard does not contain a list of illustrative procedures, as the IAASB recognizes the potential for such a list to be misunderstood as being a set of default procedures for every review engagement", we do not object to the more summarized and general approach that is being used in the proposed ISRE. However, we do suggest that selecting at least a few of those illustrations to supplement the examples already in the proposed standard might further enhance its utility for practitioners.

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Overall Comments regarding the content of the proposed standard

Review Report

It is important that the reports issued for review engagements are clearly distinct from those issued for audit engagements. While both are forms of assurance, in the case of review engagements it should be very clear for users that it is not an audit level of assurance that is being provided. We think this distinction could be better made in the draft review report included in the draft ISRE. Our comments in this regard are included in the Appendix.

Fieldwork

Level of Evidence to Be Obtained

We note that the draft ISRE would establish that a practitioner performing a review engagement should (i) accumulate a certain level of evidence to support its conclusions and (ii) that this level of evidence is proposed to be “sufficient appropriate” evidence. Under this approach it would be a matter of practitioner judgment in each engagement to determine whether this threshold has been met. Some SC 1 members are comfortable with the overall proposed notion of requiring practitioner to accumulate the evidence that it judges appropriate in the circumstances. A member, however, expresses the concern that this overall approach does not distinguish, to a sufficiently clear degree, a review from an audit because the ISRE calls for accumulating a certain level of evidence and, further, the ISRE refers to obtaining “sufficient appropriate” evidence, as is required for an audit, without further explaining what evidence might be necessary in a review engagement. As such, the ISRE as written could lead to confusion between audits and reviews, as well as wide diversity in the extent of procedures performed under review engagements under ISRE 2400.

Procedures to Be Performed

We recognize that an assurance engagement will inherently require the use of judgment by the practitioner about the nature and extent of evidence needed to provide assurance, whether it be reasonable assurance (for an audit) or limited assurance (for a review). However, we note that the text of the draft ISRE seems to vary regarding whether the inquiry and analytical review procedures are proposed to be the *primary* procedures or to be the *initial* procedures used to accumulate the level of evidence that the draft ISRE proposes the practitioner obtain. Specifically, paragraph 14 proposes that the procedures are “...primarily inquiry and analytical review...” while paragraph 48 seems to say that the

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practitioner would begin with inquiry and analytical review procedures but would then employ other procedures as necessary in the circumstances to achieve “sufficient appropriate” evidence. Depending upon the extent and nature of any other procedures that are needed, the initial inquiry and analytical review procedures may, in the end, not be the primary procedures employed for a particular engagement despite the drafting of paragraph 14 which seems to imply that they always would be. Further, some SC 1 members believe the ISRE would be more helpful to practitioners if it provided more information about the range of these other procedures that may be needed in reviews.

Applicability of the ISRE

We believe that the proposed ISRE provides a clear overall view that a review engagement under ISRE 2400 is (1) a standalone engagement, and (2) is not conducted by an entity’s auditor. However, we did find the scope somewhat unclear as to the situations in which a practitioner may apply ISRE 2400 (e.g., conducted by an entity’s auditor vs. non-auditor) and we have, therefore, provided discussion of this in our comments contained in the Appendix.

Thank you for the opportunity to comment on proposed ISRE 2400 and please do not hesitate to call me at 202-551-5300 if you have any questions.

Sincerely,

Julie A. Erhardt
Chair, Standing Committee No. 1
International Organization of Securities Commissions

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Appendix

1. Scope - We suggest consideration be given to adding a discussion to help the practitioner distinguish between when and under what circumstances they should be engaged to perform a review under ISRE 2400 vs. ISRE 2410.
2. Scope paragraph 1(a) and Application paragraph A2 - Paragraph 1(a) indicates that the practitioner under ISRE 2400 cannot be the auditor of the entity's financial statements. Further paragraph A2 appears to be addressing the use of ISRE 2400 for reviews of components of group entities that are audited at the group level. However, after reading these two paragraphs we are not sure whether or not a practitioner performing an ISRE 2400 review can be the auditor of any kind to the entity. We specifically wonder whether the practitioner in an ISRE 2400 engagement can be a component auditor, local auditor, or statutory auditor and, therefore, is only precluded from being the auditor of the group financial statements. We have read this ISRE as applying to standalone reviews of an entity's financial statements by other than an entity's auditor and believe it would be helpful to provide greater discussion in that regard and also explain what paragraph A2 means and why it is included.
3. Objective - Paragraph 14 mentions "primarily inquiry and analytical procedures" and does not include any mention of "other procedures as needed" based on the practitioner's judgment. Mentioning that other procedures may be needed would seem appropriate and in fact such mention is included in required procedures later in the standard, both in paragraph 48 and paragraph 57. The statement of objectives should be complete in this respect. We further suggest that consideration be given to simply stating the objectives in terms of the opinion to be formed on the financial statements. So, consideration should be given to stating the objective as something along the lines of: Perform such procedures as deemed necessary in the circumstance to enable the practitioner to report that 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.
4. Materiality Requirements in paragraphs 41 and 42 and Application Material in paragraphs 73-77. The extant ISRE 2400 explicitly states that in a review the practitioner shall apply the same materiality considerations as would be applied if an audit opinion on the financial statements were being given. We do not see a

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similar statement in the new proposed ISRE, which leads us to ask “is it no longer the view of the IAASB that the materiality considerations would be the same?” We believe more explanation of this issue would be helpful. We believe materiality should be the same. We believe the difference between an audit and a review is a matter of precision and not the level at which errors would be considered material to the financial statements. We believe materiality is judged in the context of the financial statements and not in the context of the precision of the practitioner’s work. So, whether the practitioner performs a review or an audit would not impact the perspective of what is material to the financial statements. We also are unclear why there is a qualifier in the last sentence of paragraph 48 stating “...where material misstatements are likely to arise” instead of simply stating “...where there is a risk of material misstatement.”

5. Related parties requirements paragraphs 49 and 50 seem to lack coverage describing what the practitioner should do if undisclosed related party transactions are discovered. A set of statements similar to those presented in paragraph 51 would address this need. Alternatively, we suggest that paragraphs 49 and 50 refer the practitioner to ISA 550, *Related Parties*, perhaps specifically paragraphs 21 through 28 of ISA 550, for guidance on what to do when assessing related party transactions in an ISRE 2400 engagement.
6. Paragraph 53 regarding going concern issues states “The practitioner shall consider whether management’s assessment includes all relevant information of which the practitioner is aware as a result of the review.” Should some statement be added regarding the need for the practitioner to discuss missing information if management’s assessment does not include all relevant information of which the practitioner is aware?
7. Modified Review Reports – In regard to Modified Conclusion paragraph 72 (b), there are many negatives in this paragraph and its wording is such that it is difficult to understand even for a native English speaker.
8. Review Reports – We believe it is important for a reader of a practitioner’s report to know that a review is different from an audit. And because the proposed style of these two types of reports would be similar, we wonder whether some readers may be confused. Therefore, we suggest consideration be given to increasing the emphasis on how a review is different from an audit. For example, we believe repositioning the last paragraph in the proposed review report under the heading

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“Practitioner’s Responsibility” to instead be the second to last paragraph might increase this emphasis. We also suggest the first phase of this paragraph could add emphasis to the distinction if the words were changed to read (our changes are noted in *italics*) *“A review, and the procedures in a review, are substantially less than an audit, and the procedures performed in an audit.....”*

9. Qualified Review Reports – Regarding qualified conclusions, paragraph 75 seems self contradictory in that it states, first, that the financial statements are materially misstated, and then states that the practitioner may state “nothing has come to the practitioner’s attention that causes the practitioner to believe that the statements are not prepared in all material respects in accordance with ... etc.” We understand that this paragraph is discussing an “Except for” qualification, but do not think the drafting is giving clear statements.

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