



24 May 2011

James Gunn  
Technical Director  
International Auditing and Assurance Standards  
Board  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, New York 10017  
USA

Re: AUD/HB/LA/SH

Dear Mr. Gunn,

**Re: IAASB ED Proposed International Standard on Review Engagements ISRE 2400 (Revised), Engagements to Review Historical Financial Statements**

FEE is pleased to provide you with its comments on the IAASB ED on Proposed International Standard on Review Engagements ISRE 2400 (Revised), Engagements to Review Historical Financial Statements.

FEE welcomes the initiative to address the needs of small and medium-sized entities as the increase in audit thresholds in a number of jurisdictions has resulted in more entities moving away from the requirement to have an audit. The review engagement as an assurance service will therefore become increasingly important and a revision and update of the existing standard on review engagements is appreciated.

FEE notes that the main objective of revising this standard is to achieve consistency in the carrying out of review engagements. FEE recognises that revising this particular standard is a challenging task as the variety of current practices influences the development of the new standard. Also, FEE notes that the exposure draft proposes a set of requirements that has the potential, given the comments made below, to achieve a high quality final standard.

With these points in mind, FEE encourages the IAASB to ensure that the new standard is of the highest quality possible and to remain committed to finalise the standard as a matter of priority for the benefits of the practitioners performing numerous of these engagements in practice as well as for users of review reports who will also have a clear interest in consistent review engagements.

Our main comments on the exposure draft are summarised below:

1. As mentioned above, FEE fully supports revising the standard on review engagements as more and more companies, especially in Europe, are being exempt from audit. Review engagements may therefore be used more extensively in the future so the standard is essential to develop the future role of practitioners. However, when finalising the standard the IAASB should carefully consider whether the standard as a whole is sufficiently clear and understandable in order to facilitate its wide application in practice which FEE can only encourage and which we believe will be achievable with the amendments proposed below.
2. The overarching aim for a standard on review engagements is to make them understandable, meaningful and clearly distinguishable from audit engagements. The distinction from audit is best addressed, from the point of view of users, through the review report and secondly, for the practitioners, through the nature and extent of review procedures that need to be undertaken. In order not to create a new expectation gap or widen the existing one, the standard should enable practitioners and users to understand how review engagements are distinguishable from audit engagements. This should be made clear throughout the standard.
3. The objective for a review engagement should more clearly identify the desired output of the engagement by explicitly identifying limited assurance and should be aligned with other IAASB pronouncements on limited assurance.
4. More definitions relevant to a review engagement should be included in the standard to make it a stand alone standard. Especially terms for which there are significant differences compared to an audit should be clearly defined, such as “Evidence”.
5. In order to facilitate consistent application, minimum analytical procedures should be specified in the standard itself and not be left to practitioners to define.
6. The general concept of a negative opinion, regardless of the wording of the opinion, may be difficult to understand in practice and may not contribute, in the interest of the users, to close the expectation gap that already exists. However, FEE believes that limited assurance can probably best be conveyed through a negative opinion as this makes the review opinion different from an audit opinion in its appearance. The specific wording of the opinion should be made simple and clear using the most non-technical language possible. This can be achieved by avoiding double negative wording and we have included some suggested wording in our answers to your questions.

Our detailed comments are set out in the appendix.

For further information on this FEE<sup>1</sup> letter, please contact Hilde Blomme at +32 2 285 40 77 or via email at [hilde.blomme@fee.be](mailto:hilde.blomme@fee.be) or Lotte Andersen at +32 2 285 40 80 or via email at [lotte.andersen@fee.be](mailto:lotte.andersen@fee.be) from the FEE Secretariat.

Yours sincerely,



Philip Johnson  
FEE President

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<sup>1</sup> FEE is the Fédération des Experts comptables Européens (Federation of European Accountants). It represents 45 professional institutes of accountants and auditors from 33 European countries, including all of the 27 EU Member States. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 500.000 professional accountants, working in different capacities in public practice, small and big firms, government and education, who all contribute to a more efficient, transparent and sustainable European economy.

FEE's objectives are:

- To promote and advance the interests of the European accountancy profession in the broadest sense recognising the public interest in the work of the profession;
- To work towards the enhancement, harmonisation and liberalisation of the practice and regulation of accountancy, statutory audit and financial reporting in Europe in both the public and private sector, taking account of developments at a worldwide level and, where necessary, promoting and defending specific European interests;
- To promote co-operation among the professional accountancy bodies in Europe in relation to issues of common interest in both the public and private sector;
- To identify developments that may have an impact on the practice of accountancy, statutory audit and financial reporting at an early stage, to advise Member Bodies of such developments and, in conjunction with Member Bodies, to seek to influence the outcome;
- To be the sole representative and consultative organisation of the European accountancy profession in relation to the EU institutions;
- To represent the European accountancy profession at the international level.

## Appendix

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

FEE represents the accounting profession and is therefore not part of the group of stakeholders that the IAASB addresses in this question. However, FEE's perception is that a review engagement is useful in practice and that there is a demand for such an engagement in many of the European countries.

The overarching challenge will be to make the engagement understandable, meaningful and clearly distinguishable from an audit engagement. It is also important that the added value that such an engagement can have for its users is clearly explained. In practice, the risk of expanding the expectations gap is a risk that the accountancy profession as a whole, together with its stakeholders, should do its utmost to mitigate.

### **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?**

#### Distinguishable from audit engagements

This standard will set the requirements that a practitioner will need to undertake on review engagements in the future. The IAASB should ensure that a standard for review engagements as a whole is sufficiently clear and understandable for all its users to facilitate its wide application in practice. In FEE's view, this would be highly desirable as it is expected that more review engagements, especially in Europe, will be performed in the future as more companies are exempt from the requirement to have a statutory audit. FEE believes that with the inclusion of the amendments proposed below, it would be possible for the IAASB to achieve this goal in a way that would be acceptable to practitioners and users.

In order not to create a new expectation gap or widen the existing one, it is essential to make the requirements clear and concise, and to illustrate how review engagements are distinguishable from audit engagements. Otherwise, this could lead to some procedures being performed which should only be required in an audit engagement. The cost-benefit considerations for review engagements may, therefore, not be entirely clear. This should be made clearer throughout the standard.

This distinction from an audit is best addressed from the point of view of users through the review report. Secondly, the nature and extent of the review procedures should enable practitioners to readily draw the distinction between a review and an audit. Both aspects need to be clearly addressed in a standard for review engagements.

Another way to display the differences would be to compare audit engagements and review engagements in a tabular format. This could be done in a similar way to the approach used in the requirements' section of the recently published exposure draft on assurance on greenhouse gas statements as well as in the recently published exposure draft on assurance engagements<sup>2</sup>. Such a comparison in a tabular format would clearly make the two engagements distinguishable and facilitate consistent application which would be to the benefit of practitioners when applying the standard and to the users of the review reports. If a comparison in a tabular format is not included as an appendix to the standard, the comparison could be included in the Assurance Framework<sup>3</sup>, issued as an IAASB Staff Paper or as other educational material with the inclusion of a reference to such material in the introduction to the standard on review engagements.

#### Relationship between ISRE 2400, ISRE 2410 and ISA 600 – paragraph 2

FEE recommends that the standard is clear on which review standard (ISRE 2400 or ISRE 2410<sup>4</sup>) is required to be used in various circumstances. Both standards use the criteria of whether the practitioner is the auditor or not of the entity's financial statements. However, the question may be whether or not the auditor has an audit knowledge base that is the key criteria. For example, where a new auditor is appointed to an entity and the first task required to be undertaken is a review of the entity's half year financial statements, the assumption is that ISRE 2410 applies. However, the auditor would need to gain this audit knowledge before undertaking the review. In addition, if an entity no longer requires an audit (due to increased audit thresholds, for example) but wants its previous auditor to undertake a review, the assumption is that ISRE 2400 applies but as the auditor already has an audit knowledge base, some of the requirements might not apply. FEE encourages the IAASB to consider and clarify, if needed, whether these assumptions are correct.

The other area of confusion relates to group audits. If the auditor is conducting a review of the interim group financial statements, then they are clearly under ISRE 2410. However, the question is whether ISRE 2400 would apply if the group auditor asks another practitioner to undertake a review of a component's financial information where they are not the auditor of that component. In addition, in an audit under ISA 600<sup>5</sup> the group auditor can ask the component auditor to undertake a review of the financial information of the component. Whether ISRE 2400 or ISRE 2410 is to be used by that component practitioner must depend on the knowledge base that the component practitioner has of that entity. We recommend that paragraph A2 is made clearer on this point.

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<sup>2</sup> Proposed ISAE 3000 (Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information

<sup>3</sup> International Framework for Assurance Engagements

<sup>4</sup> ISAE 2410 Review of Interim Financial Information Performed by the Independent Auditor of an Entity

<sup>5</sup> ISA 600 Special Considerations – Audits of Group Financial Statements

**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?**

Objective – paragraphs 14-15

The objective appears to focus on the process and the procedures for a review engagement which, in our view, are more the scope of the standard than its objective. The objective is too vague to be consistently applied in practice and especially the double negative wording of the objective may not facilitate its application.

It would be more meaningful to the users if the objective of the standard states the desired output of the engagement instead of describing the process on how this output should be achieved. The desired output in this context would be the level of assurance achieved as a result of applying the practitioner's professional judgement on the evidence obtained. This will make the engagement (and the standard) evidence-driven instead of procedures-driven, which, in FEE's view, is the preferable solution.

FEE recommends that the IAASB considers the objective as set out in the recently proposed ISAE 3000<sup>6</sup>, which highlights the level of assurance obtained in a limited assurance engagement. FEE believes that this will be more meaningful and understandable to the intended users.

We support alignment of the objectives in the various standards that contain requirements for limited assurance engagements. The standards involved to date would be this one on review engagements, the above mentioned ISAE 3000 and also the recently proposed standard on assurance on greenhouse gas statements<sup>7</sup>.

An alternative wording of the objective of the standard could be as follows:

*"In conducting a review of financial statements, the objectives of the practitioner are:*

- (a) To obtain limited assurance about whether the financial statements are prepared in all material respects, in accordance with an applicable financial reporting framework; and*
- (b) To express an opinion in a written report that clearly conveys limited assurance and describes the basis for the opinion on the financial statements as a whole, and to communicate as required by this ISRE."*

With regard to paragraph 15, the IAASB should consider whether this reference to the actions needed if no conclusion can be drawn is actually part of the objective or whether it is merely a requirement to be included in the requirements section under the report (paragraphs 66 and seq.).

<sup>6</sup> Proposed ISAE 3000 (Revised) Assurance Engagements other than Audits or Reviews of Historical Financial Information, draft prepared for IAASB Board meeting in March 2011.

<sup>7</sup> DRAFT ISAE 3410 Assurance Engagements on Greenhouse Gas Statements, exposure draft for consultation until June 2011.

## Definitions – paragraph 17

FEE recommends removal of the reference to the Glossary of Terms in the introduction to paragraph 17. The Glossary of Terms does not have a specific and explicit status within the IAASB hierarchy of pronouncements and therefore cross-referencing is unnecessary. The Glossary of Terms is merely, and should continue to be, a helpful tool for all users, containing a compilation of all definitions included in the standards to ensure that the definitions are consistent from one standard to another.

In general, practitioners need to have certainty about the defined terms in the standard that are critical to its application. Therefore, FEE prefers that only those definitions are included in this standard which are key to help practitioners meet the objectives and the requirements of the standard.

The additional definitions that FEE proposes to be included are “Engagement partner” and “Engagement team” with the aim of more clearly underlining the difference between audits and review engagements.

The proposed definition of “*Practitioner*” incorporates the definition applicable in ISAs which is that a practitioner is “*a professional accountant in public practice*”. In addition, it includes “... *other members of the engagement team, or, as applicable, the firm*”. This second part of the proposed definition of “*practitioner*” indicating that a “*practitioner*” can be more than one person appears counterintuitive and it would, in our view, be more understandable in practice if “*practitioner*”, in line with what is the case for audit engagements, is restricted to only being “*a professional accountant in public practice*”.

We note that the proposed definition for “*practitioner*” in the recently published Exposure Draft ISAE 3000 on Assurance Engagements, differs significantly from the proposed definition in this Standard on Review Engagements and the commonly used definition in ISAs. FEE encourages the IAASB to align the definition of the term in its various pronouncements and not to have numerous definitions of the same term.

In addition, it could be clarified in the standard what is to be understood as the difference between “*engagement partner*” and “*practitioner*”. As drafted it is not apparent what the difference between the two terms is, if any. This is highlighted when comparing paragraphs 27 and 28 regarding acceptance and when comparing the responsibilities for the engagement partner and the practitioner in paragraphs 24 and 29, respectively.

In addition to the above mentioned definitions, there is a need for specific attention regarding the definitions of the following three terms:

- Analytical Procedures

ISAs are clearer on what is understood by “*analytical procedures*”. If the analytical procedures for review are to be different and less comprehensive compared to analytical

procedures for audit, such as those defined in ISA 520<sup>8</sup>, it should be explained much more clearly in the application material which analytical procedures are relevant for review engagements. In addition, the application material should explain what the intended difference is between analytical procedures that are to be used in review engagements and substantive analytical procedures that are used in audit engagements.

- Evidence

FEE recommends that the term “*Evidence*” is defined in paragraph 17. As for analytical procedures, the intention would be to underline that the standard is a stand alone standard and in addition explain, in the application material, the difference between audit evidence as defined in ISA 500<sup>9</sup> and evidence for review engagements. In addition, paragraph 56 on evidence could be expanded to more clearly describe the evidence that is needed in a review engagement. A proposed definition for “*Evidence*” would be similar to the one used for audit engagements in ISA 500 and could be as follows:

*“Evidence - Information used by the practitioner in arriving at the conclusions on which the opinion is based. Evidence includes both information contained in the accounting records underlying the financial statements and other information.”*

- Inquiry

The term “*Inquiry*” is defined in paragraph 17 and is similar but not identical with the definition of the term included in ISA 500. The inquiries needed for review engagements are different from those required for audits. For example, they do not include inquiries to be made to persons outside the entity. This difference should be explained in more detail in the application material.

#### **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, the requirements regarding factors affecting engagement acceptance and continuance appears reasonable and feasible for a review engagement and deliver the main outcome of whether the engagement can be accepted or continued.

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<sup>8</sup> ISA 520 Analytical Procedures

<sup>9</sup> ISA 500 Audit Evidence



**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.**

FEE strongly supports the IAASB developing a threshold for focusing the practitioner's inquiry and analytical review procedures, since without relevant guidance the practitioner's inquiries may not be appropriately directed. However, paragraphs 43 and 44 as drafted could be seen as setting this threshold too high, especially in situations where the practitioner considers misstatements to be unlikely to arise in the financial statements prepared by management. In these cases, the practitioner may not undertake sufficient detailed inquiries and analytical review procedures.

#### Understanding and risk considerations – paragraph 43

The proposed requirement in paragraph 43 only requires the practitioner to obtain an understanding and not to have knowledge. In compilation engagements, according to the Exposure Draft ISRS 4410 on Compilation Engagements, the practitioner is required to obtain “knowledge and understanding”. If any difference is intended, the IAASB is encouraged to explain this difference.

It should be noted that in review engagements understanding obtained through application of the requirements in the standard should result in a lower level of understanding than that required in an audit, but in a higher level than that required for a compilation engagement. This should be clear in the amended requirement in paragraph 43.

Although not explicitly mentioned, the IAASB seems to indicate that a review engagement contains some risk considerations by requiring the use of inquiries and analytical review procedures as well as obtaining an understanding of the entity's business when performing the review. In practice, a review engagement will most likely contain such risk considerations, but not in a consistent way, due to lack of guidance on how such risk considerations should be applied in a review engagement compared to the risk-based approach used in an audit engagement.

To align the requirements in the standard with the application in practice and to explicitly explain whether “understanding” as required in paragraph 43 is to be understood as being part of general risk considerations as well as using professional skepticism and professional judgment as required in paragraphs 22-23, FEE strongly encourages the IAASB to explicitly include requirements related to such risk considerations in the standard. To clearly distinguish from the risk-based approach in audit engagements, a term other than “risk-based approach” should be used. The term “*Risk Considerations*” would be in line with the proposed approach for limited assurance engagements in the proposed ISAE 3000<sup>10</sup> which in FEE's view is an appropriate term for indicating that such considerations should be applied throughout the engagement, but should

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<sup>10</sup> Proposed ISAE 3000 (Revised) Assurance Engagements other than Audits or Reviews of Historical Financial Information, draft prepared for IAASB Board meeting in March 2011.

be less extensive than the procedures required for audit engagements in the ISAs. Also, FEE notes that the recently proposed exposure draft on assurance on greenhouse gas statements requires the practitioner to “*identify and assess risks of material misstatement...*” in relation to limited assurance engagements. FEE encourages that these are aligned to ensure that the approach for limited assurance engagements are the same in all relevant IAASB standards.

These further explanations in relation to “*Understanding*” and “*Risk Considerations*” would be the most essential part of displaying the differences between audit and review engagements. The explanation required in this regard should preferably enable the practitioners to understand that the application of the risk standards<sup>11</sup> is not required in a review engagement, although applying risk considerations is required.

As a result of the above comments related to the concept of understanding, FEE suggests modifying the requirement as follows:

“43. *The practitioner shall obtain an understanding of:*

- (a) The entity and its environment, including the entity’s accounting system and accounting records relevant to the review level of assurance that will be given in the report; and
- (b) The applicable financial reporting framework, including its application in the industry in which the entity operates;

~~*sufficient to identify those areas in the financial statements where, were material misstatements to exist, they would be are likely to arise exist, and to be able to design procedures to address those areas.*~~

Paragraph A79 includes a number of examples of factors that the practitioner may consider when obtaining an understanding of the entity and its environment. In addition to those mentioned, FEE recommends highlighting the situation where the owner is also responsible for management of the entity as there are specific risk considerations to take note of in such a situation.

The last bullet point in paragraph A79 in the application material regarding the practitioner’s understanding includes the following example for what the practitioner may consider when obtaining an understanding: “*The level of development and proper design or relative sophistication of the entity’s accounting systems and related controls through which the entity’s accounting records and related information is maintained from which the entity’s financial statements are derived*”. FEE believes that there might be more emphasis on an understanding of the internal controls of the entity in some cases. This example should be reworded and elaborated on in the application material.

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<sup>11</sup> The risk standards:

ISA 300 Planning an Audit of Financial Statements

ISA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment

ISA 330 The Auditor’s Responses to Assessed Risks

### Procedures – paragraphs 44 and seq.

The proposed wording may be setting the threshold for focusing inquiry and analytical procedures at too high a level which could lead to an opinion in the practitioner's report which is not supported by appropriate evidence.

Considering the balance of the standard as a whole, FEE notes that the requirements for procedures are set out in 8 pages whilst the report is described in over 10 pages. With this in mind, it seems that there is some imbalance between the two parts of the objective, as set out in paragraph 14.

Performing a review engagement involves professional judgment, as required in paragraphs 22 and 23. However, more guidance on how professional judgment is to be used could be beneficial for users which could be done by setting minimum review procedures. FEE notes that the IAASB has proposed minimum requirements for inquiries. However, for analytical procedures, no minimum procedures have been proposed. FEE believes that it would be more beneficial to have a set of minimum procedures for the analytical procedures as this would lead to a much greater harmonisation and consistent application of the standard from entity to entity and from country to country.

When defining the minimum analytical review procedures, it should be made clear, as mentioned under the definitions above that, in practice there will be a difference between analytical audit procedures and analytical review procedures. Also, it should be clarified that substantive procedures would not normally be required in a review engagement.

To maintain the focus on the areas where material misstatements are likely to exist and taking note of the comments above, the requirement in paragraph 44 could be as follows:

*“44. The practitioner shall design and perform inquiry and analytical review procedures to address all material items in the financial statements, including disclosures, and to focus on addressing those areas in the financial statements where, were material misstatements to exist, they would be are likely to arise exist.”*

Also, extant ISRE 2400 has useful guidance on minimum analytical procedures that may merit to be included in the new ISRE 2400. Therefore, FEE proposes that minimum analytical review procedures are included in the standard as follows:

- Paragraph 20 of extant ISRE 2400 containing procedures that would ordinarily be performed should be amended as appropriate and included in the application material of the new ISRE.
- An equivalent of Appendix 2<sup>12</sup> of extant ISRE 2400 is included as an appendix in the new standard.

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<sup>12</sup> Appendix 2 of extant ISRE 2400 “Illustrative Detailed Procedures that may be Performed in an Engagement to Review Financial Statements”.

Also, although fraud is mentioned in paragraph 51, some clarification is needed as to what the considerations should be, and what additional procedures should be applied if the work carried out reveals fraud. In this context, there would also be merit in including material to explain the limitations of a review engagement in relation to fraud. Otherwise, expectations are likely to be unrealistic in respect of the review practitioner's ability to become aware of incidents of fraud.

FEE suggests that a requirement should be included to look at earlier review reports recognising that this may not be possible in all jurisdictions. A requirement regarding the possibility to ask management for permission to talk to the previous practitioner could also be relevant to include if not already dealt with in the general acceptance process.

#### Documentation – paragraph 90

In practice, the main difference between audit and review engagements will be the amount of procedures performed by the practitioner. As a result of this, less documentation than in an audit would be prepared, although the approach to the documentation needed is equivalent to that required for an audit. Therefore, it would be useful if further explanations are added as to the level of documentation that would be relevant in a review engagement, given the difference in procedures compared to an audit engagement. This could be done by including application material on the matter similar to the application material included in ISA 230<sup>13</sup> but amended appropriately.

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

As mentioned above, FEE believes that minimum analytical review procedures should be included and the overall approach for the engagement should be based on the risk-based approach.

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

As described above, FEE does not believe that the requirements and guidance in the proposed standard adequately convey the intended approach to review engagements.

The IAASB is encouraged to consider whether the requirement for using the work of others, both auditors and experts, in paragraph 55 is sufficiently clear for a review engagement. This work would need to be scaled down from that required under ISA 620<sup>14</sup>. Also, considerations regarding the use of service organisations<sup>15</sup> could be relevant to include in paragraph 55, as situations where the entity has outsourced its bookkeeping or payroll to another entity are quite frequent for entities, such as smaller SMEs, where a review engagement is common in practice.

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<sup>13</sup> ISA 230 Audit Documentation

<sup>14</sup> ISA 620 Using the Work of an Auditor's Expert

<sup>15</sup> ISA 402 Audit Considerations relating to an Entity Using a Service Organisation

**(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?**

As explained above, FEE believes that minimum analytical review procedures are needed as requirements in the standard to ensure consistent application of the requirements in practice.

**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?**

FEE recommends that the word "may" in paragraph 57 is replaced by "are likely to" which would lead to a higher and more appropriate level for when additional procedures are to be performed. This would also align the introduction of paragraph 57 with paragraph 57 (a) and would ensure that the threshold for the trigger point for additional procedures is not set at too low a level.

Some examples could be given in the application material on when additional procedures need to be performed.

**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?**

The main difference between the report on a review and an audit engagement is the wording of the opinion which is proposed to be negative in a review report compared to the positive opinion in an audit report which in FEE's view appropriately conveys the level of assurance given to the users.

However, the review report would be even more distinguishable from an audit report if its structure and appearance was significantly different. Therefore, IAASB is encouraged to carefully consider this in the broader context of practitioner's and auditor's reporting in its current project, as the considerations regarding structure of reports are applicable to all reports.

### Wording of the opinion

Reporting will be crucial when considering the future role of the auditor, especially given the current discussions on this issue in the EU as a result of the recent consultation on audit policy initiated by the European Commission<sup>16</sup>. The current IAASB project on audit reports addresses this point with its focus on users' perceptions on the audit report. These considerations are equally important for review reports as it is the expectation that such reports will be issued in the future in an even greater number than is currently the case.

FEE recognises that the general concept of a negative opinion, regardless of the wording, may be difficult to understand in practice and may not contribute, in the interest of the users, to close the expectation gap that already exists. This should be considered especially in light of the users of financial statements of SMEs on which review opinions will be principally issued. In addition, linguistic issues should be carefully considered, as the double negative in the opinion makes it difficult to understand in a number of languages other than English. However, FEE realises that the negative opinion probably best conveys the level of assurance that is being given. However, the specific wording of the opinion should be simple and clear in the most non-technical language possible.

Additionally, adverse opinions or disclaimers of opinion are difficult to make understandable in a negative opinion as proposed, given the need for double negatives. This is apparent in the proposed requirements for modified conclusions in paragraph 72 (b) where the wording “... *unable to obtain sufficient appropriate evidence to form a conclusion about whether anything has come to the practitioners attention that causes the practitioner to believe that the financial statements do not present fairly ...*’ is very difficult to understand to a non-audit technical user of the review report in English as well as in other languages.

Therefore, to generally avoid the double negative in the review opinion and to address the problem of adverse opinions or disclaimers of opinion, FEE proposes to simplify the proposed wording of the opinion, which could be done in one of the following ways:

- “*Based on our review, we are not aware of any material amendments that should be made to the financial statements in order for them to be in accordance with the applicable financial reporting framework.*” or
- “*Based on our review, nothing has come to our attention that causes us to believe that the financial statements require material amendment in order for them to be in accordance with the applicable financial reporting framework*”.

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<sup>16</sup> European Commission Green Paper on Audit Policy: Lessons from the Crisis  
[http://ec.europa.eu/internal\\_market/consultations/docs/2010/audit/green\\_paper\\_audit\\_en.pdf](http://ec.europa.eu/internal_market/consultations/docs/2010/audit/green_paper_audit_en.pdf)

### “Opinion” or “Conclusion”

FEE is of the view that the report should have an “opinion” and not a “conclusion”. The difference between the two terms could in practice be too subtle, even in English, and does not seem to meet the purpose of distinguishing between a review and an audit to the extent that is intended. Also, for linguistic purposes, the subtle difference between the two terms is quite difficult to translate, as a number of other languages do not have two words that can clearly display the intended difference.

FEE recommends that the title of the opinion identifies that this is a “*Review Opinion*”. Also the title of the report should preferably be “*Review Report on the Financial Statements*”. This would be in line with the proposals made for the illustrative reports in the exposure draft on assurance on a greenhouse gas statement and highlights the report as being distinguishable from an audit.

### Practitioner’s Responsibility

The current wording in the Illustrative Practitioners’ Review Report on “*Practitioner’s Responsibility*” differs significantly from the responsibility in an audit. The question is whether the responsibility of the practitioner is that different in an audit and a review and whether it should be more aligned with the objective of the standard and the opinion of the report.

Therefore, FEE proposes an alternative wording of the first paragraph in the part of the Review Report that deals with the Practitioner’s Responsibility and the accompanying amendment to the requirement in paragraph 82 (f) along the following lines:

*“Our responsibility is to express a review opinion on the accompanying financial statements based on our review. We conducted our review engagement in accordance with International Standard on Review Engagements (ISRE) 2400, Engagements to Review Historical Financial Statements. ISRE 2400 requires that we comply with relevant ethical requirements and perform review procedures”.*

### Review not being audit and non-compliance with the standard

Paragraph 83 (d) requires that the review report includes a statement that “... *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*”. This is reflected in the illustrative review report by the inclusion of a paragraph stating “*The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.*”

To facilitate provisions that may be in national laws or regulations in particular jurisdictions, FEE suggests that the IAASB considers changing this requirement to be an option similar to examples that refer to national laws and regulations included in ISAs. These proposed changes would

result in a review report where the practitioner explains the content of the work carried out instead of referring to the extent of work that has not been carried out.

Similarly, in paragraph A54 the practitioner is encouraged to state non-compliance with the standard if it is not possible to comply with the standard in the report. FEE strongly agrees that the practitioners should be encouraged to apply the standard in full and also issue review reports when the work has been carried out. However, FEE does not see a need to state non-compliance if that is the case as this is then outside the scope of the standard and contradicting the general principle of complying with all paragraphs of the standard.

#### Illustrative Review Report including Emphasis of Matter paragraphs

FEE proposes that one more Illustrative Practitioners' Review Report is added to display how emphasis of matter paragraphs can be included in practice in accordance with the requirements in paragraphs 84-86 of the exposure draft.

**(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 ...II) 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.**

See above.

**(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?**

FEE does not believe that the negative opinion as suggested above would be the most optimal way to make it understandable and meaningful to users of financial statements. Further arguments are set out above.

#### **Users of Financial Statements of SMEs**

As financial statements on which a review engagement is expected to be performed will primarily be small and medium sized entities, it should be highlighted in the introduction that the standard is designed with specific focus on review of smaller entities. In FEE's view, it could be useful to include the following text from the explanatory memorandum into the standard: *"The practitioner's understanding needed to design procedures appropriate for the engagement is intended to be*



*scalable (that is, for entities of different size and complexity) and will likely also differ between engagements, depending on the nature of the entity's business and industry."*

## **Other issues**

### Relationship with ISQC 1 – paragraph 4

Where review or compilation engagements are performed, ISQC 1 (or equivalent system at least as demanding) should be applied as it is best practice for internal quality control rules for EU audit firms. ISQC 1 is already adaptable, scalable or proportionate to meet the needs for application by SMPs and considerations specific to smaller firms are taken into account in the standard itself as well as in the guidance to the standard.

In this context, further guidance from the IAASB specifically for smaller firms and others would be welcomed, also to illustrate its proportionate use to audit oversight bodies of especially documentation requirements displaying that audits of public interest entities differ from audits of SMEs, which in most cases is due to the less complex nature of the businesses. In this context, paragraph A5 of the proposed standard could be expanded with inclusion of such guidance which would be more helpful in practice compared to the current list extracted from ISQC 1.

### Flowchart in Explanatory Memorandum

The explanatory memorandum contains a flowchart for a review engagement. To facilitate the understanding and the application of the new standard, it could be useful to have such a flowchart included in the final standard as an appendix or Application Material.

### Effective date

FEE is of the view that the two future standards on Compilation Engagements and Review Engagements should be effective at the same date due to the interlinkage between the two standards and in order to facilitate consistent application of both types of engagements in practice.

### Drafting and minor comments

FEE offers a few drafting and minor comments:

- It appears that there is an inconsistency between paragraph 29 (e) and paragraph 30 (b) (iii) a. as the practitioner may accept an engagement with a scope limitation, as long as this limitation will not result in a disclaimer of opinion in accordance with paragraph 29 (e) whilst management will have to confirm that there is no scope limitation in paragraph 30 (b) (iii) a. Also, it should be considered that the main problems of scope limitations imposed by

management may not only be that they lead to disclaimers but are problems in themselves given that in review engagements there is significant reliance on managements' explanations.

- Paragraph 29 states: "Unless required by law or regulation, the practitioner shall *not* accept the engagement if: ..." (emphasis added) with all subitems worded negatively. Such a wording with a number of negative assessments can cause difficulties in the application of the requirements in the paragraph as well as in the translation into other languages. FEE recommends a simplified introduction to paragraph 29 as well as wording the subitems (a) – (d) positively.
- The mentioning of management responsibilities regarding internal control in paragraph 30 (b) is contradicting the fact that a review engagement does not involve the testing of internal control.
- Paragraph 66 (v) and footnote 12 in paragraph A75 refer to the conceptual framework in financial reporting as issued by the International Accounting Standards Board (IASB). FEE would like to draw attention to the fact that the IASB has issued a new Conceptual Framework<sup>17</sup> in September 2010 which would be the appropriate reference in footnote 12 in paragraph A75 and more specifically reference to paragraphs OB2 and OB5 in the framework which deal with users would be relevant in paragraph 66 (v). The terminology should also be aligned with the new Conceptual Framework stating that "*the information appears relevant and faithfully represented, including being comparable, verifiable, timely and understandable*".
- Paragraph A70 provides guidance on the communication between management, those charged with governance and the practitioner. FEE encourages the IAASB to review the paragraph in order to ensure that the IAASB is not seen to be interfering in the overall corporate governance of the entity and the relationship between management and its governing bodies.
- Paragraph A95 states that "*The practitioner may consider, where practicable, review accounting records with a view to identifying significant or unusual transactions ...*" (emphasis added). The IAASB should consider whether it is appropriate to provide guidance on this matter as it appears relevant not to limit this to only "*where practicable*". Also, there does not seem to be a corresponding requirement in paragraph 56 for this guidance in paragraph A95.

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<sup>17</sup> IASB Conceptual Framework for Financial Reporting 2010, September 2010