



Agenda Item 3

ISRE 2400 (Revised) and AR-C section 90

Objective of Agenda Item

To consider whether interpretative or non-authoritative guidance is necessary to provide guidance to accountants engaged to perform a review in accordance with both International Standard on Review Engagements 2400 (Revised), *Engagements to Review Historical Financial Statements* (ISRE 2400 (Revised)) and SSARs.

Background

At its meeting in January 2017, the ARSC reviewed an informal document that purported to outline those requirements that accountants who are engaged to perform a review engagement in accordance with ISRE 2400 (Revised) are required to perform in addition to those requirements in AR-C section 90, *Review of Financial Statements*. The ARSC concluded that a review performed in accordance with ISRE 2400 (Revised) is substantially the same as a review performed in accordance with SSARs. The Committee requested that a document be presented that showed the requirements of ISRE 2400 (Revised) and those of AR-C section 90 in a side by side format and stated that it would consider whether there were any incremental procedures that an accountant would have to perform in order to have performed the review in accordance with ISRE 2400 (Revised).

Issues for Discussion with ARSC

Issue #1 – Requirement to plan and perform the review with professional skepticism

Paragraph 22 of ISRE 2400 (Revised) reads as follows:

22. The practitioner shall plan and perform the engagement with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated.

AR-C section 90 does not include a similar requirement. At its meeting in August 2014, the ARSC concluded that the inclusion of an explicit requirement to conduct a review engagement with professional skepticism could result in unnecessary “audit creep” and directed that the requirement not be included in SSARS 21. The following is an excerpt from those meeting highlights. Note that the proposed section discussed in the excerpted meeting highlights was ultimately issued as AR-C section 90.

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Proposed Section 80, Review of Financial Statements

Professional Skepticism

The draft of the proposed section 80, *Review of Financial Statements* included a requirement that the accountant perform the review engagement with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated. The requirement is consistent with the requirement in paragraph .17 of AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards* (the audit requirement uses the phrase “plan and perform”).

C. McElroy explained that the Task Force considered whether an accountant performing a review should be required to exercise the same degree of professional skepticism as an auditor performing an audit in accordance with generally accepted auditing standards. The Task Force concluded that since the accountant only obtains limited assurance in a review engagement (and the procedures consist primarily of analytical procedures and inquiries), that the level of professional skepticism would not be the same as that needed to be exercised in an audit (the same level of independence and objectivity would have to be exercised).

C. Landes stated that professional skepticism is closely linked to evidence and the level of assurance that the accountant is looking to obtain. In an audit engagement, the auditor is looking to lower detection risk to a very low level. As such, the auditor does not assume that what management tells the auditor is true or false and instead, the auditor obtains sufficient and appropriate audit evidence. Skepticism is part of *appropriateness* in that the auditor needs to obtain sufficient persuasive evidence to opine conclusively that the financial statements are fairly stated in all material respects. Conversely, in a review engagement the accountant is not looking for persuasive evidence but instead considers contradictory evidence that comes to the accountant’s attention. As such, C. Landes stated that skepticism should not be included in the review standard. After discussion, the ARSC concluded that the inclusion of a requirement to conduct a review engagement with professional skepticism would result in audit creep and directed that the requirement not be included in the standard.

Action Requested of ARSC

The ARSC is asked to consider whether the requirement for the accountant to plan and perform the review with professional skepticism would result in the accountant performing incremental procedures in a review performed in accordance with ISRE 2400 (Revised). If so, what would those procedures be?

Issue #2 – Materiality

Paragraph 43-44 of ISRE 2400 (Revised) reads as follows:

43. The practitioner shall determine materiality for the financial statements as a whole, and apply this materiality in designing the procedures and in evaluating the results obtained from those procedures.

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44. The practitioner shall revise materiality for the financial statements as a whole in the event of becoming aware of information during the review that would have caused the practitioner to have determined a different amount initially.

Additionally, paragraph 47(a) of ISRE 2400 (Revised) requires that the practitioner design and perform inquiry and analytical procedures to address all material items in the financial statements, including disclosures. Other requirements in ISRE 2400 (Revised) include materiality considerations.

At its meeting in January 2017, the ARSC considered issues with respect to materiality in review engagements and whether additional requirements or guidance is needed – in either the SSARs or the SSARs Guide.

The ARSC observations included:

- That it would be helpful to have a clear communication to CPAs that, because materiality is an attribute of the financial statements, it does not change based on the level of service performed by the practitioner.
- In a review, the CPA would, at a minimum need to quantify known deviations in order to be able to accumulate possible misstatements to conclude whether the CPA is aware of any material modifications that need to be made to the financial statements.

The Committee also noted that Ethics Code section 1.400.040, Negligence in the Preparation of Financial Statements or Records, states that a member is considered in violation of the “Acts Discreditable Rule” if the member fails to correct financial statements that are materially false and misleading.

Action Requested of ARSC

The ARSC is asked to consider whether interpretative guidance (either in the form of an interpretation to AR-C section 90 or expanded guidance in the SSARs Guide) is necessary to assist CPAs in understanding that to perform a review in accordance with SSARs, the accountant implicitly assesses what would be material in order to plan, perform, and report.

The ARSC will walk through agenda item 3A and consider other differences between the requirements in ISRE 2400 (Revised) and AR-C section 90.

Agenda Items Presented:

Agenda item 3A Comparison of ISRE 2400 (Revised) requirements to AR-C section 90