MNP LLP

July 10th, 2015

Greg Shields, CPA, CA
Director, Auditing and Assurance Standards
Auditing and Assurance Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

Email: ed.assurancestds@cpacanada.ca

Re: Re-exposure draft on proposed CSRE 2400 – *Engagements to Review Historical Financial Statements*

Dear Sir,

Thank you for the opportunity to comment on the above noted document. We have reviewed the Re-exposure Draft and have provided our responses to the comments requested below.

1) Do you agree that the scope of proposed CSRE 2400 should cover all review engagements including reviews of interim financial statements performed by the entity's auditor, other than interim reviews covered under Section 7060? Also, do you agree with the added paragraphs A82 and A89 regarding determining materiality and the practitioner's understanding of significant accounting estimates in a review of interim financial statements?

We agree with the expansion of scope of CSRE 2400 to include all review engagements of historical financial statements except where the scope of Section 7060 applies.

We also agree with the additional application guidance in paragraph A89.

Concerning paragraph A82, it would be beneficial to practitioners if further guidance could be provided.

Paragraph A82 indicates that the selection of materiality for interim financial statements will be more difficult because of the different contexts in which users may read the statements. The current wording of Paragraph A82 would be of assistance to practitioners performing reviews of special purpose interim financial statements. However, if general purpose interim statements are being reviewed, paragraph A82 may be seen to conflict with the general guidance on determining materiality, where paragraph A74 states that unless financial statements are for a specific purpose, the "effect of misstatements on specific users, whose information needs may vary widely, is not ordinarily considered."

Paragraph A82 may also be inconsistent with paragraph A79, which states that materiality relates to the financial statements on which the practitioner is reporting and, where financial statements are prepared for periods of less than 12 months, materiality should relate only to the financial statements prepared for that period. It is unclear whether periods of less than 12 months include interim periods, or only those resulting from a change in year end or a new entity.

Paragraph A82 seems a bit vague. While it does indicate that reference to the benchmarks appropriate for determining materiality for annual financial statements might be appropriate for determining materiality for interim financial statements when those statements are read in the same context as the annual financial statements, the addition of some examples of such benchmarks – e.g., net earnings – would be appropriate. We also believe it would be helpful if A82 were to explicitly state that the materiality benchmark for interim financial statements is not required to be the same as for annual financial statements, nor is it required to be the same from one quarter to the next, and that, in the case of interim financial statements prepared for a specific circumstance or purpose, it may be appropriate to select a benchmark consistent with that circumstance or purpose.

As a separate matter, we also believe practitioners would benefit from additional guidance on considerations impacting an evaluation of whether misstatements are material for reviews of interim statements. Items to be addressed would include whether there are circumstances in which misstatements which exceed the quantitative materiality for the interim statements would be found not to be material if they arose in an annual reporting period rather than an interim period.

2) Do you agree that the wording "areas in the financial statements where material misstatements are likely to arise," along with the proposed amendments:

a) Adequately conveys the risk-informed approach for a review engagement; and

b) is sufficient to promote performance of review engagements on a reasonably consistent basis, with the application of the practitioner's professional judgement and understanding and taking into account the particular circumstances of each review engagement?

We agree that the wording "areas in the financial statements where material misstatements are likely to arise" conveys that some consideration of risk is required.

However, in the absence of definitions of "limited assurance" and "likely to arise", unless more extensive application guidance is included within the standard we are concerned that there is potential for a wide divergence of views amongst practitioners on the nature and extent of work required.

Many of the comments received by the AASB on the original exposure draft for this standard had expressed concern that the word "likely" had not been defined within the standard, and that there is no guidance to suggest an appropriate source of such a definition. We understand from the preamble to the re-exposure draft that these same concerns were raised when the IAASB was developing ISRE 2400, and that the IAASB had concluded that what is "likely" would be a matter of professional judgment and it would not be practicable to provide further guidance on the matter.

While we believe that past Canadian experience with defining terms such as “more likely than not” would indicate that it would be possible to define “likely to arise”, we appreciate the AASB’s concern that providing such a definition may have unintended consequences for other standards.

The Highlights for the Re-exposure Draft state that the intention is “to bridge the concepts of limited assurance and plausibility in its basis for conclusions document”. However, the Basis for Conclusions is not an authoritative document as laid out in the Preface to the CPA Canada Handbook – Assurance. If the AASB intends practitioners to understand limited assurance as equivalent to plausibility, we are of the opinion this would be best communicated through further application guidance incorporated within the standard.

Even if the linkage between limited assurance and plausibility is made within the standard, there is a risk that practitioners will reduce the extent of the procedures they perform if “likely” is understood to mean probable or expected to happen. For example, in an owner-managed entity with non-complex transactions, it may be possible to conclude that the oversight being provided would be sufficient to keep any material misstatements from going undetected. This might then result in review procedures only being applied to individually material line items in the financial statements.

The International Federation of Accountants has made non-authoritative guidance available on the application of ISRE 2400. In section 4 of the IFAC “Guide to Review Engagements”, “areas where misstatements are likely to arise” are described as: areas prone to misstatement due to matters such as estimation uncertainty, complexity, or need for judgment (hard-to-value inventories, etc.” In our view it would be appropriate for this to be provided as authoritative guidance within the standard, as it would provide context for the term within CSRE 2400 without defining “likely” or “likely to arise” in such a way that it would inhibit or constrain the use of those terms in other standards.

3) Do you agree that the following Canadian guidance is appropriate for a review engagement, and are capable of being clearly understood and consistently interpreted and applied?

(a) Paragraphs 55 and A105 dealing with opening balance in initial review engagements;

(b) Paragraphs 88(i)(iii) and A147-A148 dealing with circumstances when there was a modified conclusion of the practitioner’s report on the prior period’s financial statements, and the matters that gave rise to that modified conclusion have not been resolved and affect the comparability of current and comparative figures;

(c) Paragraph 94 dealing with circumstances when another practitioner has reported on the prior period financial statements; and

(d) Paragraph 95 dealing with circumstances when prior period financial statements were not subject to a review engagement or an audit engagement?

We agree with all of the above referenced guidance.

4. Are there any other matters that you think the AASB should be aware of as it considers finalizing the proposed CSRE 2400 for issuance in Canada?

A number of concerns expressed in relation to the original exposure draft of CSRE 2400 are also applicable to the Re-exposure draft.

Approach

The objective and scope at the outset of this project to revise review engagement standards included reflecting current practice and addressing needs and issues expressed by Canadian stakeholders. Based on feedback from our clients, "plausibility" constitutes an accepted and appropriate alternative for users of their financial statements where an audit level of assurance is not required. Given the length of time for which this has been the case, we believe it would serve the Canadian public interest to ensure that this level of assurance continues to be provided. We therefore reiterate our recommendation that the application guidance state that plausibility is equivalent to, or an appropriate starting point for, limited assurance.

Divergences in practice and interpretation

In surveying practitioners within our firm, we found a wide range of opinions as to what would be required following adoption of the proposed standard. Many of those consulted were concerned that the lack of definition given to the term "likely", as well as the broad definition given to the term "limited assurance", would lead to divergences in practice. In some cases the proposals were understood to require more to be done than the current standard. Others felt that the proposals would not require any changes to be made. These practitioners have extensive experience with professional standards. We find the divergence in their interpretations of the standard to be indicative of a lack of clarity within the standard. The inclusion of additional application guidance within the standard may decrease the variation in how the standard is interpreted and applied by practitioners.

Expectation gaps

Our firm's practitioners expressed concern that the broad definition of "limited assurance" could result in an expectation gap for the users of review engagement reports.

In the absence of a significant effort to explain the differences from HB8200, many users may believe that review engagements are still based on plausibility and not realize that the assurance provided under the concept of limited assurance may be different than that of previous practice.

Alternatively, users who are familiar with the definition of limited assurance may make decisions based on what they believe is a level of assurance that will enhance their confidence that is not consistent with the practitioner's professional judgment as to that level of assurance.

We believe these issues could be addressed by additional guidance in the standard linking the concept of limited assurance to that of plausibility.

Professional development and implementation

During the June 5th CPA Canada webinar on the proposed standard, it was stated that the effective date had been selected with the expectation that practitioners would be able to attend institute-sponsored professional development courses prior to implementation. The implication appeared to be that reliance would be placed on this and other non-authoritative guidance to achieve consistency amongst practitioners in the interpretation and application of the new standard.

We do agree that it will benefit the profession and our clients if professional development materials can be available well in advance of the application of new or revised standards. However, we do not believe that non-authoritative guidance is an appropriate substitute for necessary clarity within the formal authoritative standard and application guidance.

Report

Under CAS 700 auditors describe their responsibility as being "to express an opinion … based on our audit". It may be be appropriate for the equivalent sentence within the review engagement report to read "based on our review".

We would be pleased to offer our assistance to the AASB in further exploring issues raised in our response or in finding alternative solutions to meet financial statement users' needs.

MNP LLP is one of Canada's largest chartered accountancy and business advisory firms. Our clients include small to mid-size owner-managed businesses in agriculture, agribusiness, retail and manufacturing as well as credit unions, co-operatives, Aboriginals, medical and legal professionals, not-for-profit organizations, municipalities and government entities. In addition, our client base includes a sizable contingent of publicly traded companies.

Yours truly,

MNP LLP

JMacKenzie

Jody MacKenzie, CA
Director, Assurance Professional Standards