Hong Kong Institute of
Certified Public Accountants
香港會計師公會

January 2011

To: Members of the Hong Kong Institute of CPAs
All other interested parties

INVITATION TO COMMENT ON IAASB EXPOSURE DRAFT ON PROPOSED INTERNATIONAL STANDARD ON REVIEW ENGAGEMENTS (ISRE)

Proposed ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*

Comments to be received by 21 April 2011

The Hong Kong Institute of Certified Public Accountants' (Institute) Auditing and Assurance Standards Committee is seeking comments on the IAASB Exposure Draft which has been posted on the Institute's website at:

http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/exposure-drafts/.

The Explanatory Memorandum to the Exposure Draft provides background information and explanation of the proposed ISRE.

This revised standard is the second IAASB proposal in recent months that addresses the growing international need for robust standards for services that can be used by entities that are either not required or do not elect to be audited.

A review of financial statements in accordance with the proposed ISRE consists primarily of making inquiries of management and others within the entity involved in financial and accounting matters, applying analytical procedures, and evaluating the sufficiency and appropriateness of evidence obtained. The practitioner reports on whether anything has come to the practitioner's attention that causes him/her to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. The procedures performed in a review are substantially less than those performed in an audit, and the practitioner does not express an audit opinion.

The proposed ISRE will help practitioners around the world who perform review engagements converge towards use of a globally accepted benchmark, and facilitate development of practice in jurisdictions that currently do not have national standards in this area.

The proposed ISRE also seeks to strengthen extant ISRE 2400 in a number of ways. The proposed standard:

- Requires the practitioner to obtain an understanding of the entity and its environment sufficient to identify areas in the financial statements where material misstatements are likely to arise, so procedures can be designed to address those

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areas. This will make the review engagement more effective and more efficient in design.

- Clarifies that the basis of a review is obtaining evidence for the practitioner's conclusion on the financial statements, expressed in the required form, through performing procedures (primarily inquiry and analytical review) based on the practitioner's understanding of the entity and its environment and of the applicable financial reporting framework. This is in contrast to obtaining "moderate assurance" as set out in extant ISRE 2400, which may lack meaning for users.

- Sets out more clearly the circumstances where additional procedures are needed (that is, when the practitioner becomes aware of a matter(s) that causes the practitioner to believe that the financial statements may be materially misstated), to promote greater consistency of practice.

- Seeks to enhance the practitioner's reporting for the review, so that the report provided for the engagement will adequately explain to users the work performed and the limited assurance obtained by the practitioner.

In accordance with the Institute's International Standards Convergence Due Process, comments are invited from any interested party and the Institute would like to hear from both those who do agree and those who do not agree with the proposals contained in the IAASB Exposure Draft.

The IAASB invites all stakeholders to comment on its proposals. In particular, it would be helpful if respondents' comments could include the areas set out in the guide for respondents which is in pages 9 to 11 of the IAASB Exposure Draft.

Comments should be supported by specific reasoning and should be submitted in written form.

To allow your comments on the IAASB Exposure Draft to be considered, comments on the exposure draft are requested by the due date shown above.

Comments may be sent by mail, fax or e-mail to:

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Director
Hong Kong Institute of Certified Public Accountants
37/F., Wu Chung House
213 Queen's Road East
Hong Kong

Fax number (+852) 2865 6776
E-mail: commentletters@hkicpa.org.hk

Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.

January 2011
Exposure Draft

Response Due Date
21 April 2011

ED of Proposed ISRE 2400 (Revised)

Engagements to Review Historical Financial Statements

Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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This Exposure Draft may be filed in the "Exposure Drafts, Invitations to Comment" section of Volume III of the Institute Members' Handbook.

The Exposure Draft can also be found on the Institute's website at: http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/exposure-drafts/.

Hong Kong Institute of Certified Public Accountants
香港會計師公會

International
Auditing
and Assurance
Standards Board

Exposure Draft
January 2011
Comments requested by May 20, 2011

Proposed International Standard on Review Engagements

ISRE 2400 (Revised), Engagements to Review Historical Financial Statements

International Federation
of Accountants

REQUEST FOR COMMENTS

The International Auditing and Assurance Standards Board (IAASB) approved this exposure draft, proposed International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*, for publication in January 2011. This proposed ISAE may be modified in light of comments received before being issued in final form.

Respondents are asked to submit their comments **electronically** through the IAASB website (www.iaasb.org), using the "Submit a Comment" link on the Exposure Drafts and Consultation Papers page. Please note that first-time users must register to use this new feature. All comments will be considered a matter of public record and will ultimately be posted on the IAASB website.

Comments can also be faxed to the attention of the IAASB Technical Director at +1 (212) 856-9420, or mailed to:

Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Comments should be submitted by **May 20, 2011**.

Copies of this exposure draft may be downloaded free of charge from the IAASB website at www.iaasb.org.

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance.

The objective of the IAASB is to serve the public interest by setting high-quality auditing and assurance standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The structures and processes that support the operations of the IAASB are facilitated by IFAC. The mission of IFAC is to serve the public interest, strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession's expertise is most relevant.

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EXPLANATORY MEMORANDUM

Introduction

This memorandum provides background to, and an explanation of, the proposed International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*. The International Auditing and Assurance Standards Board (IAASB) approved the proposed ISRE in December 2010 for exposure.

Background

Development of International Engagement Standards for Assurance and Related Services on Financial Information Other than Audits

The IAASB's *Strategy and Work Program 2009-2011*[1] concludes that the IAASB's efforts should include the development of standards to address the needs of small- and medium-sized entities (SMEs) and small and medium practices (SMPs). In particular, the Work Program includes the revision of extant ISRE 2400, *Engagements to Review Financial Statements*, and extant ISRS 4410, *Engagements to Compile Financial Statements*. The IAASB's Exposure Draft of proposed ISRS 4410 (Revised), *Compilation Engagements*, was released in October 2010.

The importance of this strategic focus lies in the development in recent years of growing demand for services other than the audit to meet the needs of SMEs and the users of their financial information. For example, legislators and regulators in many countries are considering whether the financial statement audit is the most appropriate service for all entities, in particular SMEs, subject to their jurisdictional requirements. Many jurisdictions have introduced exemptions from mandatory audits of financial statements, for example, based on the type of entity, its size, or other public interest considerations. SMEs in those jurisdictions may still seek to have audits on a voluntary basis, and some users of SME financial information may require an entity to have its financial statements audited. This change in the regulatory environment is a significant driver of demand for services, other than the financial statement audit, that enhance the credibility of SME financial statements on a cost-effective basis.

The IAASB believes that proposed ISRE 2400 (Revised) will help practitioners performing review engagements converge on use of a globally accepted benchmark for undertaking such limited assurance engagements, and promote better clarity for users about the nature of a review. Further, the ISRE may fill an emerging need for this type of service in jurisdictions that currently do not have national standards addressing reviews of financial statements.

Key Principles Followed in Revising ISRE 2400

At the outset of the project to revise ISRE 2400, the IAASB identified the following principles concerning an engagement to review historical financial statements. The engagement should:

- Enhance users' degree of confidence in the entity's financial statements, by reporting on those financial statements in a manner commensurate with the limited assurance obtained by the practitioner.

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[1] Issued July 2008, and available on the IAASB website at: http://web.ifac.org/download/IAASB_Strategy_and_Work_Program_2009-2011.pdf

- Be able to be performed on a cost-effective basis.
- Be clearly distinguishable from an audit of financial statements.

Further, proposed ISRE 2400 should be capable of being used on a stand-alone basis for engagement performance purposes, without the need for practitioners to refer to other International Engagement Standards of the IAASB.

The ability to clearly distinguish a review of financial statements from an audit of financial statements is a matter of public interest. The proposed ISRE aims to describe the review as a distinct assurance engagement which is different from an audit in key respects, including the performance of the engagement and reporting. The following are key areas of difference:

- The work effort the practitioner applies in a review is substantially different from that applied in an audit, in particular regarding the types of procedures performed and their nature and extent; and
- The assurance obtained to support the practitioner's conclusion on the financial statements is, as a consequence, limited. To properly communicate the limited assurance obtained in the review to users of the financial statements, the practitioner is accordingly required to conclude and report on the financial statements in the form required under the proposed ISRE.

The proposed ISRE also seeks to strengthen extant ISRE 2400 in a number of ways. The proposed standard:

- Requires the practitioner to obtain an understanding of the entity and its environment sufficient to identify areas in the financial statements where material misstatements are likely to arise, so procedures can be designed to address those areas. This will make the review engagement more effective and more efficient in design.
- Clarifies that the basis of a review is obtaining evidence for the practitioner's conclusion on the financial statements, expressed in the required form, through performing procedures (primarily inquiry and analytical review) based on the practitioner's understanding of the entity and its environment and of the applicable financial reporting framework. This is in contrast to obtaining "moderate assurance" as set out in extant ISRE 2400, which may lack meaning for users.
- Sets out more clearly the circumstances where additional procedures are needed (that is, when the practitioner becomes aware of a matter(s) that causes the practitioner to believe that the financial statements may be materially misstated), to promote greater consistency of practice.
- Seeks to enhance the practitioner's reporting for the review, so that the report provided for the engagement will adequately explain to users the work performed and the limited assurance obtained by the practitioner.

The Appendix to this Explanatory Memorandum contains an overview of the review engagement under the proposed ISRE, in diagrammatic form. It highlights key phases of the engagement and includes relevant paragraph references to the requirements of the proposed ISRE.

Significant Matters

The Practitioner's Objectives in a Review

Paragraph 14 of the proposed ISRE describes the practitioner's objectives in a review. In addition to reporting, the objectives state that the practitioner is to:

> … conclude, through performing primarily inquiry and analytical procedures, and evaluating the sufficiency and appropriateness of evidence obtained, whether anything has come to the practitioner's attention that causes the practitioner to believe the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.

The IAASB believes this objective focuses appropriately on the outcome of the practitioner's work, while explaining the means by which the outcome is to be achieved. In particular, this objective addresses the procedures ordinarily expected to provide an adequate basis for the practitioner to conclude and report on the financial statements in the form required by the proposed ISRE. Consistent with the extant ISRE, the proposed standard emphasizes the more procedural nature of a review engagement in contrast to an audit. The objective, however, also addresses the need to evaluate the sufficiency and appropriateness of evidence obtained.

As for all assurance engagements, the basis for the practitioner's conclusion is the evidence obtained in the course of the engagement through the performance of procedures. While the ISRE specifies *types* of procedures to be performed at a minimum (that is, primarily inquiry and analytical procedures), it does not specify the *nature and extent* of those procedures because that is expected to vary between engagements. Accordingly the practitioner must, in each review engagement, evaluate the sufficiency and appropriateness of the evidence obtained through the procedures performed. That evidence provides the basis for the practitioner to conclude and report on the financial statements in the form required by the proposed ISRE.

The IAASB debated whether practitioners need a benchmark to be able to evaluate the sufficiency and appropriateness of the evidence obtained in the review. The IAASB concluded that there is an implicit presumption in the proposed ISRE that, by following the requirements set out in the ISRE (paragraphs 43-65 of the ISRE), the practitioner will have performed procedures that yield sufficient and appropriate evidence.

An IAASB member expressed the view that references to the sufficiency and appropriateness of evidence obtained in the practitioner's objectives, and in the requirements in paragraph 48 and paragraph 82(f)(iii), may cause confusion to users as to the distinction between an audit and a review and lead to misunderstanding regarding the extent and nature of work needed for a review. This member believes that, rather than focusing on evidence, the objectives and requirements in the ISRE should place more emphasis on the nature of the procedures performed and the limited assurance that results from performing those procedures.

The IAASB believes, however, that the evidential basis for a review must be sufficient and appropriate for the practitioner to conclude and report on the financial statements in the form required by the ISRE, and that it is important to recognize this essential element of a review as an assurance engagement.

Acceptance and Continuance of Client Relationships and Review Engagements

The proposed ISRE makes clear the factors that need to be considered by the practitioner, and the preconditions that need to be in place, in order for the practitioner to be able to perform a review on a meaningful basis. The IAASB considers it important for those factors and preconditions to be reflected in the requirements of the proposed standard. These proposed requirements aim to strengthen practice surrounding performance of reviews, by making clear to practitioners that there are certain circumstances when it is not appropriate to accept and perform a review engagement.

Performing the Review

In general terms, the practitioner designs the procedures to be performed for the review based on the practitioner’s understanding of the entity and its environment, and the applicable financial reporting framework.

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.

While a review primarily involves performing inquiry and analytical procedures, the proposed ISRE makes clear that the nature and extent of these procedures is always designed with the individual entity’s characteristics and circumstances in mind. Accordingly, there is no set of procedures to be performed in every review. In this regard, the IAASB concluded that the proposed standard should not require a detailed assessment of the risks of material misstatement in the financial statements. Rather, the practitioner is required to focus inquiry and analytical procedures on areas in the financial statements where, based on the practitioner’s understanding of the entity and its environment, and the applicable financial reporting framework, material misstatements are likely to arise. This approach is intended to encourage practitioners to design and perform procedures appropriate to the circumstances of each engagement.

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.

Additional Procedures

From the results obtained from performing procedures as explained above, the practitioner will either have obtained evidence that is sufficient and appropriate to conclude on the financial statements, or will have identified the need to perform additional procedures for the review. In regard to this latter circumstance, paragraph 57 of the proposed ISRE states:

> If the practitioner becomes aware of matter(s) that cause the practitioner to believe the financial statements may be materially misstated, the practitioner shall design and perform additional procedures sufficient to enable the practitioner to:
>
> (a) Conclude that the matter(s) is not likely to cause the financial statements as a whole to be materially misstated; or
>
> (b) Determine that the matter(s) causes the financial statements as a whole to be materially misstated.

The IAASB decided to use the word "may" in the proposed ISRE to describe the trigger point for performing additional procedures. The IAASB considered substituting "are" or "are likely to be" for the word "may" on the basis that "may" might set too low a threshold and would therefore lead to an excessive amount of work being performed in a review engagement. These alternatives were rejected because the IAASB did not consider it appropriate for a practitioner to report without having performed additional procedures when in fact the practitioner has cause to believe that the financial statements may be materially misstated. Also, this requirement would apply only when the practitioner has become aware of a relevant matter(s) that causes the practitioner to have this belief. This is in contrast to, for example, merely being aware of a risk of material misstatement when planning the engagement.

The additional procedures to be performed by the practitioner depend on the circumstances. Such procedures could include types of procedures aimed at verification of transactions or balances where the practitioner views that as necessary.

The IAASB's view is that the practitioner should perform additional procedures to the extent where the practitioner either is able to determine that the matter(s) causes the financial statements as a whole to be materially misstated (paragraph 57(b)) or, alternatively, is able to conclude that the matter(s) is not likely to cause the financial statements as a whole to be materially misstated (paragraph 57(a)). This required response captures the key principle to be applied as a matter of public interest in undertaking any limited assurance engagement, including a review, that whenever matters come to the practitioner's attention that cause the practitioner to believe the financial statements may be materially misstated, the practitioner must pursue those matters.

In regard to paragraph 57(a), the IAASB discussed defining or describing the meaning of "not likely" or "likely." It was decided that any definition or description that involved a quantitative approach (such as "more likely than not") would imply a level of precision that is rarely, if ever, achievable in practice. The IAASB intends that the term be interpreted in a "plain language" sense rather than quantitatively.

In regard to paragraph 57(b), in a review (as with an audit) of financial statements, the practitioner needs to obtain sufficient appropriate evidence to support a conclusion in the review report that the financial statements are materially misstated.

The Practitioner's Report

The practitioner's report is the means by which the practitioner communicates with users about the engagement undertaken. The report contains the practitioner's conclusion on the financial statements, expressed in the form required by the proposed ISRE. It also describes, in broad terms, the practitioner's responsibilities in the engagement and work undertaken.

Under the proposed ISRE, the practitioner's report describes the work undertaken in a review with reference to the primary types of procedures performed. The report also states the circumstances when additional procedures need to be performed. These communications together describe for users the practitioner's work effort in the review that provides the basis for the practitioner to form a conclusion on the financial statements.

The IAASB understands that it is in the public interest for users of the financial statements to have a clear understanding of the limited assurance obtained by the practitioner in a review engagement. The IAASB has considered whether the practitioner's report should set out a more detailed articulation of the procedures performed. Arguably, doing so might enable users to understand more fully the work effort applied in the engagement. The IAASB believes, however, that, in a review where specified *types* of procedures are required (that is, primarily inquiry and analytical review), there is no need to provide that level of detail. Indeed it is recognized that doing so might introduce the potential for misunderstanding, as readers of the report may infer from the level of detail a higher level of assurance than is actually the case.

The IAASB has also explored whether the practitioner's conclusion should use wording that may be viewed as taking a more positive form. The IAASB deliberated on use of phrases such as "based on our review, the financial statements are credible" or "… appear credible," or are "worthy of belief," or "plausible," in place of the phrase "nothing has come to our attention that causes us to believe …" For example, the IAASB considered whether the practitioner's conclusion could be expressed as, "Based on our review, it appears credible that the financial statements are prepared, in all material respects, in accordance with the financial reporting framework."

The IAASB concluded, taking account of input received from various stakeholders, that these alternative expressions may have the unintended result of causing users to misinterpret the basis of the practitioner's conclusion on the financial statements, which in a review is always limited assurance.

The IAASB believes that the expression of the practitioner's conclusion in the required form (that is, "nothing has come to our attention that causes us to believe that these financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework"…), taken in conjunction with the description of the work performed, is a critical element of the auditor's communications to users to signal the limits of the review engagement.

Project Timetable

Subject to comments received on exposure of proposed ISRE 2400, the IAASB intends to finalize the revised standard in the first half of 2012.

Guide for Respondents

The IAASB welcomes comments on all matters addressed in the exposure draft. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this exposure draft (especially those calling for change in current practice), it will be helpful for the IAASB to be made aware of this view.

Request for Specific Comments

The IAASB would welcome views on the following questions:

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

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?

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?

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?

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?

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

    (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?

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?

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?

    (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.

(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?

The IAASB is also seeking comments on the matters set out below.

- *Users of Financial Statements of SMEs, including Regulators*—Recognizing that financial statements reviewed by professional accountants under proposed ISRE 2400 will likely be of particular interest and relevance to users in the SME environment (for example, creditors, lending institutions, suppliers) and, in some cases, regulators, the IAASB invites respondents from these constituencies to comment on the proposed ISRE, in particular on the form and content of the illustrative practitioners' reports.
- *Developing Nations*—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment, in particular, on any foreseeable difficulties in applying the proposed ISRE in a developing nation environment.
- *Translations*—Recognizing that many respondents may intend to translate the final ISRE for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed ISRE.
- *Effective Date*—Recognizing that proposed ISRE 2400 is a substantive revision of extant ISRE 2400, and given the public interest need to harmonize practice internationally as soon as practicable, the IAASB believes that an appropriate effective date for the standard would be 18 months after approval of the final standard. Assuming the IAASB finalizes the revised standard in the first half of 2012, it would then likely be effective for reviews of financial statements for periods ending on or after December 31, 2013. The IAASB welcomes comment on whether this would likely provide a sufficient period to support effective implementation of the ISRE.

Appendix

Overview of the Engagement to Review Historical Financial Statements in Accordance with Proposed ISRE 2400

FIRM-LEVEL QUALITY CONTROL (Proposed ISRE 2400 paragraph 4*)

ENGAGEMENT-LEVEL QUALITY CONTROL (para. 24–26)

ETHICAL REQUIREMENTS, PROFESSIONAL SKEPTICISM & PROFESSIONAL JUDGMENT (para. 21–23)

- Consider acceptance and continuance of the client relationship and the review engagement, and agree terms of engagement. (para. 27–39)
- Obtain an understanding of the entity and its environment, and the applicable financial reporting framework, sufficient to identify areas where material misstatements are likely to arise. (para. 43)
- Design and perform inquiry and analytical procedures to address all material items and areas where material misstatements are likely to arise. Perform additional procedures when the practitioner becomes aware of a matter(s) that causes the practitioner to believe the financial statements may be materially misstated. Evaluate findings. (para. 41–42, 44–58)
- Consider subsequent events, and obtain written representations. (para. 59–65)
- Form conclusion on the financial statements. Report accordingly. (para. 66–89)

DOCUMENTATION (para. 90–93)

COMMUNICATION WITH MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE (para. 40)

* *Subsequent ISRE2400 paragraph references are noted as "para. xx–xx." Related application material paragraphs are indicated in the text of the ISRE.*

PROPOSED INTERNATIONAL STANDARD ON REVIEW ENGAGEMENTS 2400 (REVISED)

ENGAGEMENTS TO REVIEW HISTORICAL FINANCIAL STATEMENTS

(Effective for reviews of financial statements for periods ending on or after [date])

CONTENTS

Proposed International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Historical Financial Statements*, should be read in conjunction with the *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services*.

Introduction

Scope of this ISRE

1. This International Standard on Review Engagements (ISRE) deals with: (Ref: Para. A1)

   (a) The practitioner's responsibilities when engaged to perform a review of historical financial statements, when the practitioner is not the auditor of the entity's financial statements; and

   (b) The form and content of the practitioner's report on the financial statements.

2. A practitioner engaged to perform a review of an entity's financial statements or interim financial information, who is the auditor of the entity financial statements, performs such a review in accordance with ISRE 2410.[1] (Ref: Para. A2)

3. This ISRE is to be applied, adapted as necessary, to reviews of other historical financial information. Limited assurance engagements performed for information other than historical financial information are performed under ISAE 3000.[2]

Relationship with ISQC 1[3]

4. Quality control systems, policies and procedures are the responsibility of the firm. ISQC 1 applies to firms of professional accountants in respect of a firm's engagements to review financial statements. The provisions of this ISRE regarding quality control at the level of individual review engagements are premised on the basis that firms are subject to ISQC 1,[4] or national requirements that are at least as demanding, when performing review engagements. (Ref: Para. A3–A8)

The Engagement to Review Historical Financial Statements

5. The review of historical financial statements is a limited assurance engagement, as described in the *International Framework for Assurance Engagements* (the Assurance Framework).[5] (Ref: Para. A9–A10)

6. In a review of financial statements, the practitioner expresses a conclusion that is designed to enhance the degree of confidence of intended users regarding the preparation of an entity's financial statements in accordance with an applicable financial reporting framework. A review engagement conducted in accordance with this ISRE that includes compliance with relevant ethical requirements enables the practitioner to form that conclusion. (Ref: Para. A11)

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[1] ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

[2] International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

[3] International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

[4] ISQC 1, paragraph 4

[5] Assurance Framework, paragraphs 7 and 11

7. In a review of financial statements, the practitioner performs procedures, primarily inquiry and analytical procedures, to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole, expressed in accordance with the requirements of this ISRE. (Ref: Para. A11)

8. If the practitioner becomes aware of a matter that causes the practitioner to believe the financial statements may be materially misstated, the practitioner designs and performs such additional procedures as the practitioner considers necessary in the circumstances. (Ref: Para. A11)

Authority of this ISRE

9. This ISRE contains the objectives of the practitioner in following the ISRE, which provide the context in which the requirements of this ISRE are set and are intended to assist the practitioner in understanding what needs to be accomplished in the review engagement.

10. The ISRE contains requirements, expressed using "shall," that are designed to enable the practitioner to meet the stated objectives.

11. In addition, this ISRE contains introductory material, definitions, and application and other explanatory material that provide context relevant to a proper understanding of the ISRE.

12. The application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. While such guidance does not itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this ISRE that assist in the application of the requirements.

Effective Date

13. This ISRE is effective for reviews of financial statements for periods ending on or after [date].

Objectives

14. The practitioner's objectives in conducting a review of financial statements are:

    (a) To conclude, through performing primarily inquiry and analytical procedures, and evaluating the sufficiency and appropriateness of evidence obtained, whether anything has come to the practitioner's attention that causes the practitioner to believe the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework; and (Ref: Para. A11)

    (b) To report on the financial statements as a whole, and communicate as required by this ISRE.

15. If the practitioner is not able to form a conclusion in accordance with this ISRE on the financial statements, the practitioner is required to either disclaim a conclusion in the report provided for the engagement or, where appropriate, withdraw from the engagement if withdrawal is possible under applicable law or regulation. (Ref. Para A12–A14)

Definitions

16. The Handbook's Glossary of Terms[6] (the Glossary) includes the terms defined in this ISRE, and also includes descriptions of other terms found in this ISRE, to assist in common and consistent interpretation and translation. For example, the terms "management" and "those charged with governance" used throughout this ISRE are as defined in the Glossary. (Ref: Para. A15–A17)

17. For purposes of this ISRE, the following terms have the meanings attributed below:

    (a) Analytical procedures—Evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.

    (b) General purpose financial statements—Financial statements prepared in accordance with a general purpose framework.

    (c) General purpose framework—A financial reporting framework designed to meet the common financial needs of a wide range of users. The financial reporting framework may be a fair presentation framework or a compliance framework.

    (d) Inquiry—Inquiry consists of seeking information of knowledgeable persons, both financial and non-financial, within the entity.

    (e) Practitioner—A professional accountant in public practice who conducts the review engagement. The term includes the practitioner or other members of the engagement team, or, as applicable, the firm. Where this ISRE expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "practitioner" is used. "Engagement partner" and "firm" are to be read as referring to their public sector equivalents where relevant.

    (f) Relevant ethical requirements—Ethical requirements the engagement team is subject to, which ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with national requirements that are more restrictive.

    (g) Special purpose financial statements—Financial statements prepared in accordance with a special purpose framework.

    (h) Special purpose framework—A financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework.

[6] The Glossary of Terms relating to International Standards issued by the IAASB in the *Handbook of International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements* (the Handbook), published by IFAC

Requirements

Conduct of a Review Engagement in Accordance with this ISRE

18. The practitioner shall have an understanding of the entire text of this ISRE, including its application and other explanatory material, to understand its objectives and to apply its requirements properly. (Ref: Para. A18)

Complying with Relevant Requirements

19. The practitioner shall comply with each requirement of this ISRE unless a requirement is not relevant for the engagement, for example if the circumstances addressed by the requirement do not exist in the engagement.
20. The practitioner shall not represent compliance with this ISRE unless the practitioner has complied with all the requirements of this ISRE relevant to the review engagement.

Ethical Requirements

21. The practitioner shall comply with relevant ethical requirements, including those pertaining to independence, relating to an engagement to review financial statements. (Ref: Para. A19–A20)

Professional Skepticism and Professional Judgment

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. (Ref: Para. A21–A24)
23. The practitioner shall exercise professional judgment in planning and performing the engagement. (Ref: Para. A25–A29)

Engagement Level Quality Control

24. The engagement partner shall take responsibility for the overall quality of each review engagement to which that partner is assigned, including for: (Ref: Para. A30)
    (a) The review being performed in accordance with the firm's quality control policies and procedures applicable to the review engagement, specifically:
        (i) Being satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and engagements are followed, including considering whether there is information that would lead the engagement partner to conclude that management lacks integrity; (Ref: Para. A31–A32)
        (ii) Being satisfied that the engagement team collectively has the appropriate competence and capabilities to perform the review engagement;
        (iii) Directing, supervising and performing the review engagement in compliance with professional standards and applicable legal and regulatory requirements; and
        (iv) Maintaining appropriate engagement documentation; and
    (b) The practitioner's report being appropriate in the circumstances.

25. Throughout the engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action. (Ref: Para. A33)

26. An effective system of quality control for a firm includes a monitoring process designed to provide the firm with reasonable assurance that the firm's policies and procedures relating to the system of quality control are relevant, adequate and operate effectively. The engagement partner shall consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the review engagement.

Acceptance and Continuance of Client Relationships and Review Engagements

27. The practitioner shall be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and review engagements have been followed, and shall determine that conclusions reached in this regard are appropriate. (Ref: Para. A34)

28. If the engagement partner obtains information that would have caused the firm to decline the engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action.

Factors Affecting Acceptance and Continuance of Client Relationships and Review Engagements

29. Unless required by law or regulation, the practitioner shall not accept a review engagement if: (Ref: Para. A35–A37)

    (a) The practitioner is unable to identify the purpose for the review engagement and the intended users of the financial statements, or is not satisfied that there is a rational purpose for the engagement; (Ref: Para. A38–A40)

    (b) The basis upon which the engagement is to be performed is not agreed with management or those charged with governance through establishing that the preconditions for a review engagement are present;

    (c) The practitioner's preliminary understanding of the engagement circumstances indicates that the entity's accounting system is such that information needed to perform the review engagement is likely to be unavailable or unreliable; (Ref: Para. A41)

    (d) The practitioner has cause to doubt management's integrity such that it is likely to affect proper performance of the review; and (Ref: Para. A37(b))

    (e) Management imposes a limitation on the scope of the practitioner's work for the proposed review engagement, and the practitioner believes the scope limitation will result in the practitioner disclaiming a conclusion on the financial statements.

Preconditions for a Review Engagement

30. In order to establish whether the preconditions for a review engagement are present, prior to accepting the engagement the practitioner shall:

    (a) Determine whether the financial reporting framework applied in the preparation of the financial statements is acceptable; and (Ref: Para. A42–A48)

    (b) Obtain the agreement of management that it acknowledges and understands its responsibilities: (Ref: Para. A49–A53)

        (i) For preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation;

        (ii) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and

        (iii) To provide the practitioner with:

            a. Access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

            b. Additional information that the practitioner may request from management for the purpose of the review; and

            c. Unrestricted access to persons within the entity from whom the practitioner determines it necessary to obtain evidence.

31. If the preconditions for a review engagement are not present, the practitioner shall discuss the matter with management, and the engaging party if different. If changes cannot be made to meet the preconditions, the practitioner shall not accept the engagement unless required by law or regulation to do so. However, an engagement conducted under such circumstances does not comply with this ISRE.

32. If it is discovered after the engagement has been accepted that one or more preconditions for a review engagement is not present, the practitioner shall discuss the matter with management or those charged with governance, or with the engaging party if different, and shall determine:

    (a) Whether the matter can be resolved;

    (b) Whether it is appropriate to continue with the engagement; and

    (c) Whether and, if so, how to communicate the matter in the review report.

Additional Considerations When the Wording of the Practitioner's Report is Prescribed by Law or Regulation

33. In some cases when the review is performed pursuant to applicable law or regulation of a jurisdiction, the relevant law or regulation may prescribe the layout or wording of the practitioner's report in a form or in terms that are significantly different from the requirements of this ISRE. In these circumstances: (Ref: Para. A142)

(a) The practitioner's report shall refer to this ISRE only if the report complies with the requirements of paragraph 82; and

(b) The practitioner shall evaluate whether users might misunderstand the assurance obtained from the review of the financial statements and, if so, whether additional explanation in the practitioner's report can mitigate possible misunderstanding. If the practitioner concludes that additional explanation in the practitioner's report cannot mitigate possible misunderstanding, the practitioner shall not accept the review engagement unless required by law or regulation to do so. A review conducted in accordance with such law or regulation does not comply with this ISRE. Accordingly, the practitioner shall not include any reference within the practitioner's report to the review having been conducted in accordance with this ISRE. (Ref: Para. A54)

Agreeing the Terms of Engagement

34. The practitioner shall agree the terms of the engagement with management or those charged with governance, as appropriate, prior to performing the engagement.

35. The agreed terms of engagement shall be recorded in an engagement letter or other suitable form of written agreement, and shall include: (Ref: Para. A55–A56, A59)

(a) The objective and scope of the review;

(b) The responsibilities of the practitioner;

(c) The responsibilities of management, including those in paragraph 30(b); (Ref: Para. A49–A53, A58)

(d) Identification of the applicable financial reporting framework for the preparation of the financial statements;

(e) A statement that the engagement is not an audit, and that the practitioner will not express an audit opinion on the financial statements;

(f) The intended use and distribution of the financial statements, and any restrictions on either their use or their distribution; and

(g) Reference to the expected form and content of the report to be issued by the practitioner, and a statement that there may be circumstances in which the report may differ from its expected form and content.

Recurring Engagements

36. On recurring review engagements, the practitioner shall assess whether circumstances, including changes in the engagement acceptance considerations, require the terms of engagement to be revised and whether there is a need to remind management or those charged with governance, as appropriate, of the existing terms of the engagement. (Ref: Para. A60)

Acceptance of a Change in the Terms of the Review Engagement

37. The practitioner shall not agree to a change in the terms of the engagement where there is no reasonable justification for doing so. (Ref: Para. A61–A63)

38. If, prior to completing the review engagement, the practitioner is requested to change the engagement to an engagement for which no assurance is obtained, the practitioner shall determine whether there is reasonable justification for doing so. (Ref: Para. A64–A65)

39. If the terms of engagement are changed during the course of the engagement, the practitioner and management or those charged with governance, as appropriate, shall agree on and record the new terms of the engagement in an engagement letter or other suitable form of written agreement.

Communication with Management and Those Charged with Governance

40. The practitioner shall communicate with management or those charged with governance, as appropriate, on a timely basis during the course of the review engagement. The practitioner shall address all significant matters concerning the review that, in the practitioner's professional judgment, need to be communicated. (Ref: Para. A66–A72)

Performing the Engagement

Materiality in a Review of Financial Statements

41. 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. (Ref: Para. A73–A76)

42. 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. (Ref. Para. A77)

The Practitioner's Understanding

43. The practitioner shall obtain an understanding of: (Ref: Para. A78–A81)

    (a) The entity and its environment, including the entity's accounting system and accounting records relevant to the review; and

    (b) The applicable financial reporting framework, including its application in the industry in which the entity operates;

    sufficient to identify areas in the financial statements where material misstatements are likely to arise, and to be able to design procedures to address those areas.

Designing and Performing Inquiry and Analytical Procedures

44. The practitioner shall design and perform inquiry and analytical procedures to address all material items in the financial statements, including disclosures, and to focus on addressing areas in the financial statements where material misstatements are likely to arise. (Ref: Para. A82–A84)

45. The practitioner's inquiries of management and others within the entity, as appropriate, shall include: (Ref: Para. A85–A87)

    (a) The significant accounting policies used, and their application by management in presenting the financial statements;

(b) The development of significant accounting estimates required under the applicable financial reporting framework;

(c) The identification of related parties and related party transactions;

(d) Whether there are significant, unusual or complex transactions, events or matters that have affected or may affect the entity's financial statements, including:

   (i) Significant changes in the entity's business activities or operations;

   (ii) Significant changes to the terms of contracts that materially affect the entity's financial statements, including terms of finance and debt contracts or covenants;

   (iii) Significant journal entries or other adjustments to the financial statements;

   (iv) Significant transactions occurring or recognized near the end of the reporting period;

   (v) The status of any uncorrected misstatements identified during the previous review engagement carried out; and

   (vi) Effects or possible implications for the entity of transactions or relationships with related parties;

(e) The existence of any actual, suspected or alleged:

   (i) Fraud or illegal acts affecting the entity, and

   (ii) Non-compliance with provisions of laws and regulations that are generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements, such as tax and pension laws and regulations; and

(f) Management's assessment of the entity's ability to continue as a going concern, and whether there are events or conditions that appear to cast doubt on the entity's ability to continue as a going concern.

46. In designing analytical procedures, the practitioner shall consider whether the data from the entity's accounting system and accounting records are satisfactory for the purpose of performing the analytical procedures. (Ref: Para. A88–A91)

47. The practitioner shall also perform inquiry and analytical procedures to address whether management has identified and addressed events occurring between the date of the financial statements and the date of the practitioner's report that require adjustment of, or disclosure in, the financial statements.

48. The practitioner shall evaluate the sufficiency and appropriateness of the evidence obtained from the inquiry and analytical procedures performed, and determine whether it is necessary to perform additional procedures if the results obtained do not adequately address areas in the financial statements where material misstatements are likely to arise. (Ref: Para. A96–A100)

Procedures in a Review Engagement Related to Specific Circumstances

Related parties

49. During the review, the practitioner shall remain alert for arrangements or information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the practitioner.

50. If the practitioner identifies significant transactions outside the entity's normal course of business in the course of performing the review, the practitioner shall inquire of management about:

    (a) The nature of those transactions;

    (b) Whether related parties could be involved; and

    (c) The business rationale (or lack thereof) of those transactions.

Fraud and non-compliance with laws or regulations

51. When there is an indication that fraud or non-compliance with laws or regulations, or suspected fraud or non-compliance with laws or regulations, has occurred in the entity, the practitioner shall:

    (a) Communicate that matter to the appropriate level of senior management or those charged with governance as appropriate;

    (b) Request management's assessment of the effect, if any, on the financial statements, including any amendments needed to reflect the effects in the financial statements;

    (c) Consider the effect, if any, of management's assessment of the effects of fraud or non-compliance with laws or regulations communicated to the practitioner on the practitioner's conclusion on the financial statements and on the practitioner's report; and

    (d) Determine whether there is a responsibility to report the occurrence or suspicion of fraud or illegal acts to a party outside the entity. (Ref: Para. A92)

Going concern

52. A review of financial statements includes inquiring as to the entity's ability to continue as a going concern. If, during the performance of the review, the practitioner becomes aware of events or conditions that may cast significant doubt about the entity's ability to continue as a going concern, the practitioner shall: (Ref: Para. A93)

    (a) Inquire of management about plans for future actions based on management's assessment of the entity's ability to continue as a going concern and about the feasibility of those plans, and also whether management believes the outcome of those plans will improve the situation regarding the entity's ability to continue as a going concern; and

    (b) Consider the results of the inquiries to evaluate whether management's responses provide a sufficient basis for the practitioner to determine that the financial statements are materially misstated, where the applicable financial reporting framework includes the assumption of an entity's continuance as a going concern, or are misleading with regard to the entity's ability to continue as a going concern.

53. The practitioner shall consider whether management's assessment includes all relevant information of which the practitioner is aware as a result of the review.

54. In considering management's assessment of the entity's ability to continue as a going concern, the practitioner shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation where a longer period is specified. If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the financial statements being reviewed, the practitioner shall request management to extend its assessment period to at least twelve months from that date.

Use of work performed by others

55. In performing the review, it may be necessary for the practitioner to use work performed by other practitioners, or the work of an individual or organization possessing expertise in a field other than accounting or auditing, for the purpose of the review. If the practitioner uses work performed by another practitioner or an expert in the course of performing the review and intends to rely on that work, the practitioner shall take appropriate steps to be satisfied that the work performed by the other practitioner or the expert is adequate for the practitioner's purposes in relation to the review engagement.

Reconciling the Financial Statements to the Underlying Accounting Records

56. The practitioner shall obtain evidence that the financial statements agree with, or reconcile to, the entity's underlying accounting records. (Ref: Para. A94–A95)

Additional Procedures When the Practitioner Becomes Aware that the Financial Statements May Be Materially Misstated

57. If the practitioner becomes aware of a matter(s) that causes the practitioner to believe the financial statements may be materially misstated, the practitioner shall design and perform additional procedures sufficient to enable the practitioner to: (Ref: Para. A75, A96–A99)

    (a) Conclude that the matter(s) is not likely to cause the financial statements as a whole to be materially misstated; or

    (b) Determine that the matter(s) causes the financial statements as a whole to be materially misstated.

58. The practitioner shall evaluate the results obtained from the additional procedures performed to determine the effect on the practitioner's report. (Ref: Para. A100)

Written Representations

59. The practitioner shall request management to provide a written representation that management has fulfilled its responsibilities described in the agreed terms of engagement. The written representation shall include that: (Ref: Para. A101–A102)

    (a) Management has fulfilled its responsibility for the preparation of financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, and has provided the practitioner with all relevant information and access to information as agreed in the terms of the engagement; and

    (b) All transactions have been recorded and are reflected in the financial statements.

    If law or regulation requires management to make written public statements about its responsibilities, and the practitioner determines that such statements provide some or all of the representations required by subparagraphs (a)–(b), the relevant matters covered by such statements need not be included in the written representation.

60. The practitioner shall also request management's written representations that management has disclosed to the practitioner: (Ref: Para. A102)

    (a) The identity of the entity's related parties and all the related party relationships and transactions of which management is aware;

    (b) Significant facts relating to any frauds or suspected frauds known to management that may have affected the entity;

    (c) Known actual or possible non-compliance with laws and regulations for which the effects of non-compliance affect the entity's financial statements;

    (d) All information relevant to preparation of the financial statements in accordance with the going concern assumption where the applicable financial reporting framework assumes use of that assumption in the financial statements; and

    (e) Significant events that have occurred subsequent to the date of the financial statements and through to the date of the practitioner's report, that may require adjustment to, or disclosure in, the financial statements.

61. If, in relation to the written representations required under paragraph 59,:

    (a) Management does not provide the written representations; or

    (b) The practitioner concludes that there is cause to doubt management's integrity such that the written representations provided are not reliable,

    the practitioner shall discuss the matter with management and those charged with governance, as appropriate, including the implications for the practitioner's report, and

    (i) Disclaim a conclusion on the financial statements; or

    (ii) Withdraw from the engagement if permitted by law or regulation.

Date of and Period(s) Covered by Written Representations

62. The date of the written representations shall be as near as practicable to, but not after, the date of the practitioner's report. The written representations shall be for all financial statements and period(s) referred to in the practitioner's report.

Subsequent Events

63. If the practitioner becomes aware of events occurring between the date of the financial statements and the date of the practitioner's report not identified by management that require adjustment of, or disclosure in, the financial statements, the practitioner shall request management to correct those misstatements.

64. The practitioner has no responsibility to perform any procedures regarding the financial statements after the date of the practitioner's report. However, if, after the date of the practitioner's report but before the date the financial statements are issued, a fact becomes known to the practitioner that, had it been known to the practitioner at the date of the practitioner's report, may have caused the practitioner to amend to report, the practitioner shall:

    (a) Discuss the matter with management or those charged with governance, as appropriate;

    (b) Determine whether the financial statements need amendment; and

    (c) If so, inquire how management intends to address the matter in the financial statements.

65. If management does not amend the financial statements in circumstances where the practitioner believes they need to be amended, and the practitioner's report has already been provided to the entity, the practitioner shall notify management and those charged with governance not to issue the financial statements to third parties before the necessary amendments have been made. If the financial statements are nevertheless subsequently issued without the necessary amendments, the practitioner shall take appropriate action, to seek to prevent reliance on the practitioner's report.

Forming the Practitioner's Conclusion on the Financial Statements

Consideration of the Applicable Financial Reporting Framework in Relation to the Financial Statements

66. In forming the conclusion on the financial statements, the practitioner shall:

    (a) Evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework; (Ref: Para. A103–A105)

    (b) Consider whether, in the context of the requirements of the applicable financial reporting framework and the results of procedures performed,:

        (i) The terminology used in the financial statements, including the title of each financial statement, is appropriate;

(ii) The financial statements adequately disclose the significant accounting policies selected and applied;

(iii) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;

(iv) Accounting estimates made by management appear reasonable;

(v) The information presented in the financial statements appears relevant, reliable, comparable, and understandable; and

(vi) The financial statements provide adequate disclosures to enable the intended users to understand the effects of material transactions and events on the information conveyed in the financial statements. (Ref: Para. A106–A109)

67. The practitioner shall consider the impact of:

(a) Unadjusted misstatements identified during the review, and in the previous year's review of the entity's financial statements, on the financial statements as a whole; and

(b) Qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. (Ref: Para. A110–A111)

68. If the financial statements are prepared using a fair presentation framework, the practitioner shall consider whether anything has come to the practitioner's attention that causes the practitioner to believe that the financial statements do not present fairly, in all material respects, or do not give a true and fair view, as appropriate, in accordance with the applicable fair presentation framework. The practitioner's consideration shall include:

(a) The overall presentation, structure and content of the financial statements in accordance with the applicable framework; and

(b) Whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation or gives a true and fair view, as appropriate, in context of the financial statements as a whole.

69. If the practitioner is not able to obtain sufficient appropriate evidence to form a conclusion on the financial statements, the practitioner shall: (Ref: Para. A112–A116)

(a) Discuss with management and those charged with governance, as appropriate, the effects such limitations have on the scope of the review; and

(b) Determine the effects of such limitations on the practitioner's report.Form of the Conclusion

Unmodified Conclusion

70. The practitioner shall express an unmodified conclusion in the practitioner's report on the financial statements as a whole when the practitioner concludes, based on the evidence obtained, that nothing has come to the practitioner's attention that causes the practitioner to believe:

    (a) If the financial statements are prepared using a compliance framework, that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework; or
    (b) If the financial statements are prepared using a fair presentation framework, that the financial statements do not present fairly, in all material respects, or do not give a true and fair view, as appropriate, in accordance with the applicable financial reporting framework.

Modified Conclusion

71. The practitioner shall express a modified conclusion in the practitioner's report on the financial statements as a whole when:

    (a) The practitioner determines that the financial statements are materially misstated; or

    (b) The practitioner is unable to obtain sufficient appropriate evidence in relation to one or more specific items in the financial statements that are material in relation to the financial statements as a whole, as the basis for a conclusion.

72. If the financial statements are prepared using a fair presentation framework, the practitioner shall express a modified conclusion on the financial statements if:

    (a) The practitioner determines that the financial statements do not present fairly, in all material respects, or do not give a true and fair view of the matters to which they relate, as appropriate, in accordance with the applicable financial reporting framework; or

    (b) The practitioner is unable to obtain sufficient appropriate evidence to form a conclusion about whether anything has come to the practitioner's attention that causes the practitioner to believe that the financial statements do not present fairly, or that they do not give a true and fair view of the matters to which they relate, as appropriate, in accordance with the applicable financial reporting framework.

73. For a report that contains a modified conclusion on the financial statements:

    (a) The practitioner shall express:

        (i) A qualified conclusion, when the practitioner concludes that the effects of the matter(s) giving rise to the modification are material, but not pervasive to the financial statements; or

        (ii) An adverse conclusion, when the effects of the matter(s) giving rise to the modification are both material and pervasive to the financial statements; or

    (b) When the practitioner is unable to obtain sufficient appropriate evidence as the basis for a conclusion, the practitioner shall:

(i) Express a qualified conclusion when the practitioner concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive to the financial statements; or

(ii) Disclaim a conclusion when the practitioner concludes that the possible effects of undetected misstatements, if any, could be both material and pervasive to the financial statements.

74. When the practitioner modifies the conclusion expressed on the financial statements, the practitioner shall:

(a) Use the heading "Qualified Conclusion," "Adverse Conclusion" or "Disclaimer of Conclusion," as appropriate, for the conclusion paragraph in the practitioner's report; and

(b) Include a separate paragraph in the practitioner's report that provides a description of the matter giving rise to the modification, immediately before the conclusion paragraph.

Qualified conclusions

75. When the practitioner expresses a qualified conclusion on the financial statements as a whole due to:

(a) Having determined that the financial statements are materially misstated, the practitioner shall state in the conclusion paragraph that, based on the review, except for the effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to the practitioner's attention that causes the practitioner to believe:

(i) If the financial statements are prepared using a compliance framework, that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework; or

(ii) If the financial statements are prepared using a fair presentation framework, that the financial statements do not present fairly, in all material respects, or do not give a true and fair view of the matters to which they relate, as appropriate, in accordance with the applicable financial reporting framework.

(b) Inability to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements, the practitioner shall use the corresponding phrase "except for the possible effects of the matter(s) …" for the qualified conclusion.

76. In the Basis for Qualified Conclusion paragraph, in relation to matter(s) giving rise to the qualified conclusion:

(a) If the qualification arises from a material misstatement in the financial statements, the practitioner shall:

(i) Describe and quantify the financial effects of the misstatement if the material misstatement relates to specific amounts in the financial statements (including quantitative disclosures), unless impracticable, in which case the practitioner shall so state;

(ii) Explain how disclosures are misstated if the material misstatement relates to narrative disclosures; or

(iii) Describe the nature of omitted information if the material misstatement relates to the non-disclosure of information required to be disclosed. Unless prohibited by law or regulation, the practitioner shall include the omitted disclosures where practicable to do so; and

(b) If the qualification arises from inability to obtain sufficient appropriate evidence, the practitioner shall include the reasons for that inability.

Adverse conclusions

77. When the practitioner expresses an adverse conclusion on the financial statements, the practitioner shall state in the conclusion paragraph that, because of the significance of the matter(s) described in the Basis for Adverse Conclusion paragraph:

(a) If the financial statements are prepared using a compliance framework, the financial statements are not prepared in accordance with the applicable financial reporting framework; or

(b) If the financial statements are prepared using a fair presentation framework, the financial statements do not present fairly, or do not give a true and fair view of the matters to which they relate, as appropriate, in accordance with the applicable financial reporting framework.

78. In the Basis for Adverse Conclusion paragraph, in relation to material misstatements that give rise to the adverse conclusion, the practitioner shall:

(a) Describe and quantify the financial effects of the misstatement if the material misstatement relates to specific amounts in the financial statements (including quantitative disclosures), unless impracticable, in which the practitioner shall so state;

(b) Explain how disclosures are misstated if the material misstatement relates to narrative disclosures; or

(c) Describe the nature of omitted information if the material misstatement relates to the non-disclosure of information required to be disclosed. Unless prohibited by law or regulation, the practitioner shall include the omitted disclosures where practicable to do so.

Disclaiming a conclusion

79. The practitioner shall disclaim a conclusion on the financial statements when the practitioner is unable to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements, and determines that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. In such circumstances, due to the significance of scope limitations, the practitioner is unable to form a conclusion on the financial statements.

80. When the practitioner disclaims a conclusion on the financial statements due to inability to obtain sufficient appropriate evidence as the basis for a conclusion on those financial statements, the practitioner shall state in the conclusion paragraph that:

    (a) Because of the significance of the matter(s) described in the Basis for Disclaimer of Conclusion paragraph, the practitioner is unable to complete the review in accordance with this ISRE to be able to form a conclusion on the financial statements; and

    (b) Accordingly, the practitioner does not express a conclusion on the financial statements.

Inability to Form a Conclusion Due to a Management-Imposed Limitation on the Scope of the Review after Engagement Acceptance

81. If the practitioner is unable to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements because of a limitation on the scope of the review imposed by management after the practitioner has accepted the engagement, the practitioner shall determine the implications of the scope limitation and the possible effects on the financial statements of undetected misstatements. The practitioner shall:

    (a) Qualify the conclusion under paragraphs 73(b)(i) and 75(b), if the effects are material but not pervasive; or

    (b) If the effects are material and pervasive, so that a qualification of the conclusion under subparagraph (a) above would not adequately communicate the gravity of the situation, either:

        (i) Withdraw from the review, where practicable and possible under applicable law and regulation; (Ref: Para. A114–A116) or

        (ii) Disclaim a conclusion on the financial statements under paragraphs 73(b)(ii) and 79–80, if withdrawal from the review before issuing the practitioner's report is not practicable or possible.

The Practitioner's Report

82. The practitioner's report for the review engagement shall be in writing, and shall contain the following elements: (Ref: Para. A117–A120, A142, A144)

    (a) A title, which shall clearly indicate that it is the report of an independent practitioner for a review engagement;

    (b) The addressee(s), as required by the circumstances of the engagement;

(c) An introductory paragraph that:

 (i) Identifies the financial statements reviewed, including identification of the title of each of the statements contained in the set of financial statements and the date and period covered by each financial statement;

 (ii) Refers to the summary of significant accounting policies and other explanatory information; and

 (iii) States that the financial statements have been reviewed;

(d) A description of the responsibility of management for the preparation of the financial statements, including an explanation that management is responsible for the preparation of the financial statements in accordance with the applicable financial reporting framework, and for the fair presentation of the financial statements where a fair presentation framework is used; (Ref: Para. A121–A124)

(e) If the financial statements are special purpose financial statements:

 (i) A description of the purpose for which the financial statements are prepared and, if necessary, the intended users, or reference to a note in the special purpose financial statements that contains that information; and

 (ii) If management has a choice of financial reporting frameworks in the preparation of such financial statements, a reference within the explanation of management's responsibility for the financial statements to management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances;

(f) A description of the practitioner's responsibility to express a conclusion on the financial statements based on the review, and of the scope of a review of the financial statements, including: (Ref: Para. A125)

 (i) A reference to this ISRE and, where relevant, applicable law or regulation; (Ref: Para. A126, A143)

 (ii) A description of a review of financial statements in accordance with paragraph 83; and (Ref: Para. A127)

 (iii) A statement of the practitioner's belief that the practitioner has obtained sufficient appropriate evidence as the basis for the conclusion expressed; or

  a. If the practitioner's conclusion is qualified or adverse, that the practitioner has obtained sufficient appropriate evidence as the basis for the practitioner's modified conclusion; or

  b. If the practitioner disclaims a conclusion, the following statement: "Our responsibility is to express a conclusion on the financial statements based on performing the review in accordance with ISRE 2400. Because of the matter(s) described in the Basis for Disclaimer of Conclusion paragraph, however, we are not able to obtain sufficient appropriate evidence to form a conclusion;"

(g) A paragraph under the heading "Conclusion" that contains the practitioner's conclusion on the financial statements as a whole in accordance with paragraph 70, and a reference to the applicable financial reporting framework used to prepare the financial statements, including identification of the jurisdiction of origin of the financial reporting framework that is not IFRS (in full) or IFRS for SMEs (in full) issued by the International Accounting Standards Board or International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board; (Ref: Para. A128–A131)

(h) When the practitioner's conclusion on the financial statements is modified in accordance with paragraphs 71–74:

   (i) A paragraph with the heading "Qualified Conclusion," "Adverse Conclusion," or "Disclaimer of Conclusion," as appropriate, that contains the practitioner's modified conclusion expressed in accordance with paragraphs 75, 77 or 79 respectively; and

   (ii) A paragraph that provides a description of the matter(s) giving rise to the modification, immediately before the conclusion paragraph, under an appropriate heading, for example, "Basis for Qualified Conclusion," "Basis for Adverse Conclusion" or "Basis for Disclaimer of Conclusion," as appropriate, in accordance with paragraphs 76, 78 or 80 respectively;

(i) The date of the practitioner's report; (Ref: Para. A138–A141)

(j) The practitioner's signature; and (Ref: Para. A132)

(k) The practitioner's or the firm's address.

Communication of the Nature of a Review of Financial Statements

83. The practitioner shall include in the report a description of the nature of a review of financial statements and its limitations, including a statement that: (Ref: Para. A127)

   (a) In a review engagement, the practitioner performs procedures to obtain sufficient appropriate evidence as the basis for concluding on the financial statements as a whole;

   (b) The procedures performed consist primarily of making inquiries of management and others within the entity involved in financial and accounting matters, and applying analytical procedures in relation to the financial statements;

   (c) A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISAs), and consequently does not enable the practitioner to obtain assurance that the practitioner would become aware of all significant matters that might be identified in an audit and, accordingly, the practitioner does not express an audit opinion on the financial statements; and

   (d) 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.

Emphasis of Matter and Other Matters in the Practitioner's Report

Emphasis of Matter Paragraphs

84. The practitioner may consider it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the practitioner's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. In such cases, the practitioner shall include an Emphasis of Matter paragraph in the practitioner's report, provided the practitioner has obtained sufficient appropriate evidence to conclude that the matter is not likely to be materially misstated as presented in the financial statements. Such paragraph shall refer only to information presented or disclosed in the financial statements.

85. The practitioner's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the practitioner's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose. The practitioner shall include this paragraph under an appropriate heading. (Ref: Para. A133–A134)

86. The practitioner shall include an Emphasis of Matter paragraph immediately after the paragraph that contains the practitioner's conclusion on the financial statements under the heading "Emphasis of Matter," or other appropriate heading.

Other Matter Paragraphs

87. If the practitioner considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the practitioner's judgment, is relevant to users' understanding of the review, the practitioner's responsibilities or the practitioner's report and this is not prohibited by law or regulation, the practitioner shall do so in a paragraph in the practitioner's report with the heading "Other Matter" or other appropriate heading.

Other Reporting Responsibilities

88. A practitioner may be requested to address other reporting responsibilities in the practitioner's report on the financial statements that are in addition to the practitioner's responsibilities under this ISRE to report on the financial statements. In such situations, those other reporting responsibilities shall be addressed by the practitioner in a separate section in the practitioner's report headed "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section, following the section of the report headed "Report on the Financial Statements." (Ref: Para. A135–A137)

Date of the Practitioner's Report

89. The practitioner shall date the report no earlier than the date on which the practitioner has obtained sufficient appropriate evidence as the basis for the practitioner's conclusion on the financial statements, including being satisfied that: (Ref: Para. A138–A141)

(a) All the statements that comprise the financial statements under the applicable financial reporting framework, including the related notes where applicable, have been prepared; and

(b) Those with the recognized authority have asserted that they have taken responsibility for those financial statements.

Documentation

90. The preparation of documentation for the review provides evidence that the review was performed in accordance with this ISRE, and legal and regulatory requirements where relevant, and a sufficient and appropriate record of the basis for the practitioner's report. The practitioner shall document the following aspects of the engagement in a manner sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand:

(a) The nature, timing, and extent of the procedures performed to comply with this ISRE and applicable legal and regulatory requirements;

(b) Results obtained from the procedures, and the practitioner's conclusions formed on the basis of those results; and

(c) Significant matters arising during the engagement, the practitioner's conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

91. In documenting the nature, timing and extent of procedures performed as required in this ISRE, the practitioner shall record:

(a) Who performed the work and the date such work was completed; and

(b) Who reviewed the work performed for the purpose of quality control for the engagement, and the date and extent of the review.

92. The practitioner shall also document discussions with management, those charged with governance, and others as relevant to the performance of the review of significant matters arising during the engagement, including the nature of those matters.

93. If, in the course of the engagement, the practitioner identified information that is inconsistent with the practitioner's findings regarding significant matters affecting the financial statements, the practitioner shall document how the inconsistency was addressed.

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Application and Other Explanatory Material

Scope of this ISRE (Ref: Para. 1–2)

A1. In performing a review of financial statements, the practitioner may be required to comply with legal or regulatory requirements in addition to those contained in this ISRE. This ISRE does not address the responsibilities of the practitioner that may exist in law or regulation, and such responsibilities may differ from those established in this ISRE. Accordingly, while the practitioner may find aspects of this ISRE helpful in such circumstances, it is the responsibility of the practitioner to ensure compliance with all relevant legal, regulatory and professional obligations.

A2. Review engagements in accordance with this ISRE may be requested by entities that are part of a group of entities, the group financial information of which is required to be audited, but where the financial information of certain components of the group is reviewed on account of their relative significance in the overall context of the group.[7]

Relationship with ISQC 1 (Ref: Para. 4)

A3. ISQC 1 deals with the firm's responsibilities to establish and maintain its system of quality control for assurance engagements, including review engagements. Those responsibilities are directed at establishing quality control systems, policies and procedures at the level of the firm. A jurisdiction that has not adopted ISQC 1 in relation to review engagements may have national standards that set out requirements for quality control in firms performing such engagements. The provisions of this ISRE regarding quality control at the level of individual engagements are premised on the basis that such national requirements are at least as demanding as those of ISQC 1.

A4. Under ISQC 1, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:

(a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and

(b) Reports issued by the firm or engagement partners are appropriate in the circumstances.[8]

A5. The requirements of ISQC 1 include establishing a system of quality control with policies and procedures that address each of the following elements:

- Leadership responsibilities for quality within the firm.
- Relevant ethical requirements.
- Acceptance and continuance of client relationships and specific engagements.
- Human resources.
- Engagement performance.
- Monitoring.

A6. Within the context of the firm's system of quality control, engagement teams have a responsibility to implement quality control procedures applicable to the engagement, and

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7 ISA 600, *Special Consideration—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph A52

8 ISQC 1, paragraph 11

provide the firm with relevant information to enable the functioning of that part of the firm's system of quality control relating to independence.

A7. Engagement teams are entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise. For example, the engagement team may rely on the firm's system of quality control in relation to:

- Competence of personnel through their recruitment and formal training.
- Independence through the accumulation and communication of relevant independence information.
- Maintenance of client relationships through acceptance and continuance systems.
- Adherence to regulatory and legal requirements through the monitoring process.

In considering deficiencies identified in the firm's system of quality control that may affect the review engagement, the engagement partner may have regard to measures the firm took to rectify the situation that the engagement partner considers are sufficient in the context of that review engagement.

A8. A deficiency in the firm's system of quality control does not necessarily indicate that a particular review engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the practitioner's report was not appropriate.

The Engagement to Review Historical Financial Statements (Ref: Para. 5–8, 14(a))

A9. Reviews of financial statements may be performed for a wide range of entities that vary by type or size, or by the level of complexity in their financial reporting. In some countries or jurisdictions, the review of financial statements of certain types of entity may also be the subject of domestic laws or regulations and related reporting requirements.

A10. Reviews may be performed in a variety of circumstances. For example, they may be required for, or requested by, entities that are exempt from requirements specified in law or regulation for mandatory audit of entities of a certain type or class. Reviews may also be requested on a voluntary basis, such as in connection with financial reporting undertaken for arrangements under the terms of a private contract, or to support funding arrangements.

A11. The practitioner performs procedures to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements, expressed in accordance with the requirements of this ISRE. Expression of the practitioner's conclusion in accordance with the requirements of this ISRE communicates to users of the practitioner's report that the practitioner's conclusion is based on evidence-gathering procedures that are limited but sufficient to provide a basis for the conclusion.

Objectives (Ref: Para. 15)

A12. This ISRE requires the practitioner to disclaim a conclusion on the financial statements in the following circumstances:

(a) The practitioner issues a report or is required to issue a report for the engagement; and

(b) The practitioner is unable to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements, and providing a qualified conclusion on the financial statements is insufficient in the circumstances for the purpose of reporting to the intended users of the financial statements.

A13. An inability to obtain sufficient appropriate evidence (also referred to as a limitation on the scope of the review) may arise from:

(a) Circumstances beyond the control of the entity;

(b) Circumstances relating to the nature or timing of the practitioner's work; or

(c) Limitations imposed by management or those charged with governance of the entity.

A14. This ISRE sets out requirements and guidance for the practitioner when the practitioner encounters such circumstances, either prior to accepting an engagement to perform a review or during a review.

Definitions (Ref: Para. 16)

A15. This ISRE describes meanings attributed to certain terms for purposes of this ISRE. These are provided to assist practitioners in the consistent application and interpretation of this ISRE, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise.

A16. The way the practitioner applies the requirements of this ISRE regarding management or those charged with governance is affected by the fact that the responsibilities of management and those charged with governance are likely to differ between various types of entities, and also between countries or jurisdictions. In small entities where one or more owners also manage the business, the roles of management and those charged with governance may coincide.

A17. Various responsibilities relating to preparation of financial information and external financial reporting will fall to either management or those charged with governance according to factors such as:

- The resources and structure of the entity; and
- The respective roles of management and those charged with governance within the entity as set out in relevant law or regulation or, if the entity is not regulated, in any formal governance or accountability arrangements established for the entity (for example, as recorded in contracts, a constitution or other type of establishment documents of the entity).

For example, in small entities there is often no separation of the management and governance roles for the entity, or those charged with governance of the entity may also be involved in managing the entity. In most other cases, especially in larger entities, management is responsible for execution of the business or activities of the entity and reporting thereon, while those charged with governance have oversight of management. In larger entities, those charged with governance will often have or assume responsibility for approving the financial information of the entity, particularly when it is intended for the use or information of external parties. In large entities, often a subgroup of those charged with governance, such as an audit committee, is charged with certain oversight responsibilities. In different country settings, the legal responsibility for preparation of financial statements for an entity in accordance with a specified framework is the legal responsibility of those charged with governance, and in other countries it is a management responsibility.

Conduct of a Review Engagement in Accordance with this ISRE (Ref: Para. 18)

A18. This ISRE does not override laws and regulations that govern a review of financial statements. In the event that those laws and regulations differ from the requirements of this ISRE, a review conducted only in accordance with laws and regulations will not automatically comply with this ISRE.

Ethical Requirements (Ref: Para. 21)

A19. Part A of the IESBA Code establishes the fundamental principles of professional ethics relevant to the practitioner when conducting a review of financial statements, and provides a conceptual framework for applying those principles. The fundamental principles with which the practitioner is required to comply by the IESBA Code are:

(a) Integrity;

(b) Objectivity;

(c) Professional competence and due care;

(d) Confidentiality; and

(e) Professional behavior.

Part B of the IESBA Code illustrates how the conceptual framework is to be applied in specific situations.

A20. In the case of an engagement to review financial statements, it is required by the IESBA Code that the practitioner be independent of an entity whose financial statements are reviewed. The IESBA Code describes independence as comprising both independence of mind and independence in appearance. The practitioner's independence from the entity safeguards the practitioner's ability to form a conclusion on the financial statements based on the review performed without being affected by influences that might compromise the practitioner's conclusion. Independence enhances the practitioner's ability to act with integrity, to be objective and to maintain an attitude of professional skepticism.

Professional Skepticism and Professional Judgment

Professional Skepticism (Ref: Para. 22)

A21. Professional skepticism is necessary for the critical assessment of evidence in a review. This includes questioning inconsistencies and investigating contradictory evidence, and questioning the reliability of responses to inquiries and other information obtained from management and those charged with governance. It also includes consideration of the sufficiency and appropriateness of evidence obtained in the light of the engagement circumstances.

A22. Professional skepticism includes being alert to, for example:

- Evidence that contradicts other evidence obtained.
- Information that brings into question the reliability of documents and responses to inquiries to be used as evidence.
- Conditions that may indicate possible fraud.
- Any other circumstances that suggest the need for additional procedures.

A23. Maintaining professional skepticism throughout the review is necessary if the practitioner is to reduce the risks of:

- Overlooking unusual circumstances.
- Over-generalizing when drawing conclusions from evidence obtained.
- Using inappropriate assumptions in determining the nature, timing, and extent of the procedures performed in the review, and evaluating the results thereof.

A24. The practitioner cannot be expected to disregard past experience of the honesty and integrity of the entity's management and those charged with governance. Nevertheless, a belief that management and those charged with governance are honest and have integrity does not relieve the practitioner of the need to maintain professional skepticism or allow the practitioner to be satisfied with evidence that is inadequate for the purpose of the review.

Professional Judgment (Ref: Para. 23)

A25. Professional judgment is essential to the proper conduct of the review. This is because interpretation of relevant ethical requirements and the requirements of this ISRE, and the informed decisions required throughout the review, cannot be made without the application of relevant knowledge and experience to the facts and circumstances. Professional judgment is necessary in particular regarding decisions about:

- Materiality.
- The nature, timing, and extent of procedures used to meet the requirements of this ISRE and to gather evidence.
- Evaluating whether sufficient appropriate evidence has been obtained, and whether more needs to be done to achieve the objectives of the practitioner under this ISRE.

- The consideration of management's judgments in applying the entity's applicable financial reporting framework.
- Drawing the conclusion on the financial statements based on the evidence obtained, including considering the reasonableness of the estimates made by management in preparing the financial statements.

A26. The distinguishing feature of the professional judgment expected of the practitioner is that it is exercised by a practitioner whose training, knowledge and experience have assisted in developing the necessary competencies to achieve reasonable judgments. Consultation on difficult or contentious matters during the course of the review, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm, assists the practitioner in making informed and reasonable judgments.

A27. The exercise of professional judgment in any particular case is based on the facts and circumstances that are known by the practitioner. The practitioner will be guided by such matters as the following:

- Knowledge acquired from engagements carried out for the entity's financial statements in prior periods, where applicable.
- The practitioner's understanding of the business including understanding of the accounting principles and practices of the industry in which the entity operates, and of the entity's accounting systems.
- The extent to which particular items in the financial statements are affected by management judgment.

A28. Professional judgment can be evaluated based on whether the judgment reached reflects a competent application of assurance and accounting principles and is appropriate in the light of, and consistent with, the facts and circumstances that were known to the practitioner up to the date of the practitioner's report.

A29. Professional judgment needs to be exercised throughout the review and is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement or sufficient appropriate evidence.

Engagement Level Quality Control (Ref: Para. 24–25)

A30. The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each engagement, emphasize the importance of achieving quality in the engagement, including:

(a) Performing work that complies with professional standards and regulatory and legal requirements.

(b) Complying with the firm's quality control policies and procedures as applicable.

(c) Issuing reports for the engagement that are appropriate in the circumstances.

(d) The engagement team's ability to raise concerns without fear of reprisals.

Acceptance and Continuance of Client Relationships and Review Engagements (Ref: Para. 24(a)(i))

A31. ISQC 1 requires the firm to obtain information considered necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Information that assists the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and review engagements are appropriate includes information concerning:

- The integrity of the principal owners, key management and those charged with governance; and
- Significant matters that have arisen during the current or a previous review engagement, and their implications for continuing the relationship.

A32. If the engagement partner has cause to doubt management's integrity to a degree that is likely to affect proper performance of the review, it will not be appropriate under this ISRE to accept the engagement to perform a review, unless required by law or regulation, as doing so may lead to the practitioner being associated with the entity's financial statements in an inappropriate manner.

Compliance with Ethical Requirements (Ref: Para. 25)

A33. ISQC 1 sets out the responsibilities of the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements, including those pertaining to independence. This ISRE sets out the engagement partner's responsibilities with respect to relevant ethical requirements, including:

- Evaluating whether members of the engagement team have complied with relevant ethical requirements, and
- Determining the appropriate action if matters come to the engagement partner's attention that indicate that members of the engagement team have not complied with relevant ethical requirements.

Acceptance and Continuance of Client Relationships and Review Engagements (Ref: Para. 27)

A34. The practitioner's consideration of client continuance and relevant ethical requirements, including independence, occurs throughout the engagement as conditions and changes in circumstances occur. Performing initial procedures on both client continuance and evaluation of relevant ethical requirements (including independence) at the beginning of the current engagement means that they are completed prior to the performance of other significant activities for the engagement.

Factors Affecting Acceptance and Continuance of Client Relationships and Review Engagements (Ref: Para. 29)

A35. Assurance engagements may only be accepted when the engagement exhibits certain characteristics[9] that are within the control of the entity and upon which it is necessary for the practitioner and the entity's management to agree.

A36. If management does not or will not acknowledge its responsibilities in relation to the financial statements, it is not appropriate to accept the engagement unless law or regulation requires the practitioner to do so. In circumstances where the practitioner is required to accept the review engagement, the practitioner may need to explain to management and those charged with governance, where different, the importance of these matters and the implications for the engagement.

A37. Other factors that influence the practitioner's decision to accept a review engagement include the existence of circumstances which are not conducive to performing a review of an entity's financial statements; for example, if based on preliminary inquiries prior to acceptance of the engagement:

(a) The practitioner has cause to doubt that information needed to perform the review will be available, or reliable for the purpose of performing analytical procedures. This consideration is not directed at the need that sometimes arises in the course of an engagement to assist management by recommending adjusting entries required to finalize the financial statements prepared by management.

(b) The practitioner has cause to doubt management's integrity, so that the use of procedures which involve making inquiries of management is unlikely to be an effective means of obtaining evidence concerning the financial statements.

Rational Purpose for the Review Engagement (Ref: Para. 29(a))

A38. The practitioner obtains an understanding of the purpose of the review in light of the intended use and intended users of the financial statements. In the absence of a rational purpose for the engagement, the practitioner may believe the engaging party intends to associate the practitioner's name with the financial statements in an inappropriate manner.

A39. If the proposed engagement is to review special purpose financial statements, the practitioner obtains an understanding of the specific purpose for which the financial statements are prepared and establishes the identity of the specific intended users of the financial statements.

A40. The proposed review engagement may not have a rational purpose if the practitioner believes that, were an audit to be performed, it is likely that the practitioner would qualify, disclaim or express an adverse opinion on the financial statements. In that circumstance, the practitioner would not accept an engagement to perform a review, unless required to do so by law or regulation

9 Assurance Framework, paragraph 17

Information Likely to Be Unavailable or Unreliable (Ref: Para. 29(c))

A41. When the practitioner's preliminary understanding of the engagement circumstances indicates that a review engagement is not appropriate, the practitioner may recommend that another type of engagement be undertaken. For example, the existence of significant shortcomings or deficiencies in the entity's accounting systems may make performance of a review inappropriate. In that circumstance, the practitioner may consider recommending performance of another type of engagement, for example a compilation engagement, as being more appropriate, in view of the intended use, or the needs of the intended users, of the financial statements.

Preconditions for a Review Engagement

The applicable financial reporting framework (Ref: Para. 30(a))

A42. A condition for acceptance of an assurance engagement is that the criteria[10] referred to in the definition of an assurance engagement are suitable and available to intended users.[11] For purposes of this ISRE the applicable financial reporting framework provides the criteria the practitioner uses to review the financial statements including, where relevant, their fair presentation. Some financial reporting frameworks are fair presentation frameworks, and others are compliance frameworks. The requirements of the applicable financial reporting framework determine the form and content of the financial statements, including what constitutes a complete set of financial statements.

Acceptability of the applicable financial reporting framework

A43. Without an acceptable financial reporting framework, management does not have an appropriate basis for the preparation of the financial statements and the practitioner does not have suitable criteria for the review of the financial statements.

A44. The practitioner's determination of the acceptability of the financial reporting framework applied in the financial statements is made in the context of the practitioner's understanding of the intended use of the financial statements.

A45. In many cases, the practitioner may presume that the applicable financial reporting framework is acceptable (for example, a financial reporting framework that is prescribed by law or regulation in a jurisdiction to be used in the preparation of general purpose financial statements for certain types of entities) in the absence of any indications to the contrary.

A46. Factors that are relevant to the practitioner's determination of the acceptability of the financial reporting framework to be applied in the preparation of the financial statements include:

- The nature of the entity (for example, whether it is a business enterprise, a public sector entity or a not-for-profit organization).

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10 Criteria are the benchmarks used to evaluate or measure the subject matter including, where relevant, benchmarks for presentation and disclosure. Suitable criteria enable reasonably consistent evaluation or measurement of a subject matter within the context of professional judgment.

11 Assurance Framework, paragraph 17(b)(ii)

- The purpose of the financial statements (for example, whether they are prepared to meet the common financial information needs of a wide range of users or the financial information needs of specific users).
- The nature of the financial statements (for example, whether the financial statements are a complete set of financial statements or a single financial statement).
- Whether the applicable financial reporting framework is prescribed in relevant law or regulation.

A47. If the financial reporting framework used to prepare the financial statements is not acceptable in view of the purpose of the financial statements and management will not agree to use of a financial reporting framework that is acceptable in the practitioner's view, the practitioner is required under this ISRE to decline the engagement.

A48. Deficiencies in the applicable financial reporting framework that indicate that the framework is not acceptable may be encountered after the review engagement has been accepted. When use of that financial reporting framework is not prescribed by law or regulation, management may decide to adopt another framework that is acceptable. When management does so, the practitioner is required under this ISRE to agree the new terms of the review engagement with management to reflect the change in the framework, as the previously agreed terms will no longer be accurate.

Responsibilities of management and those charged with governance (Ref: Para. 30(b), 35(c))

A49. The financial statements subject to review are those of the entity, prepared by management of the entity with oversight from those charged with governance. This ISRE does not impose responsibilities on management and does not override laws and regulations that govern their respective responsibilities. However, a review in accordance with this ISRE is conducted on the premise that management has acknowledged certain responsibilities that are fundamental to the conduct of the review. The review of the financial statements does not relieve management of its responsibilities.

A50. As part of its responsibility for the preparation of the financial statements, management is required to exercise judgment in making accounting estimates that are reasonable in the circumstances, and to select and apply appropriate accounting policies. These judgments are made in the context of the applicable financial reporting framework.

A51. Because of the significance of the preconditions for undertaking a review of financial statements, the practitioner is required under this ISRE to obtain the agreement of management that it understands its responsibilities before accepting a review engagement. The practitioner may obtain management's agreement either orally or in writing, however management's agreement is subsequently recorded within the written terms of the engagement.

A52. The way in which the responsibilities for preparation of financial information for external financial reporting are divided between management and those charged with governance will vary according to the resources and structure of the entity and any relevant law or regulation, and the respective roles of management and those charged with governance within the entity. In most cases, management is responsible for execution while those charged with governance have oversight of management. In some cases, those charged with governance will have, or will assume, responsibility for approving the financial information of the entity, particularly when it is intended for the use, or information, of external parties. In larger entities, a subgroup of those charged with governance, such as an audit committee, may be charged with certain oversight responsibilities.

A53. Despite the fact that there are likely to be differences in the extent of the responsibilities of management and, where appropriate, those charged with governance, in relation to the preparation of financial information for an entity and its financial reporting and related internal controls, a review engagement in accordance with this ISRE is only conducted on the precondition that management and, where appropriate, those charged with governance have acknowledged and understand their responsibilities.

Additional Considerations When the Wording of the Practitioner's Report Is Prescribed by Law or Regulation (Ref: Para. 33)

A54. This ISRE requires the practitioner to not represent compliance with this ISRE unless the practitioner has complied with all the requirements of this ISRE that are relevant for the particular review engagement. Law or regulation may prescribe matters in relation to an engagement that would ordinarily cause the practitioner to decline the engagement were it possible to do so, for example if:

- The practitioner considers that the applicable financial reporting framework prescribed by law or regulation is not acceptable; or
- The prescribed layout or wording of the practitioner's report is in a form or in terms that are significantly different from the requirements of this ISRE.

A review conducted in these situations does not comply with this ISRE, and the practitioner may consider including a statement in the practitioner's report that the review is not conducted in accordance with this ISRE. The practitioner is, however, encouraged to apply this ISRE, including the requirements that address the practitioner's report, to the extent practicable, notwithstanding that the practitioner is not permitted to refer to the review being conducted in accordance with this ISRE.

Agreeing the Terms of Engagement

Engagement Letter or Other Form of Written Agreement (Ref: Para. 35)

A55. It is in the interests of both management and those charged with governance, or the engaging party if different, and the practitioner that the practitioner sends an engagement letter prior to performing the review engagement to help avoid misunderstandings with respect to the engagement. An engagement letter confirms the practitioner's acceptance of the engagement and helps avoid misunderstanding regarding such matters as:

- The objectives and scope of the engagement.
- The extent of the practitioner's responsibilities, and the form of the report to be issued.
- The responsibilities of management in relation to the review engagement and the financial statements to be reviewed.

A56. The form and content of the engagement letter may vary for each entity. In addition to including the matters required by paragraph 35, an engagement letter may make reference to, for example:

- Arrangements concerning the involvement of other practitioners and experts in some aspects of the review.
- Arrangements to be made with the predecessor practitioner, if any, in the case of an initial review.
- Emphasis of the point, to avoid confusion, that since an audit is not being performed, a review engagement will not satisfy any statutory or third party requirements for an audit.
- The expectation that management will provide written representations to the practitioner.
- The agreement of management to inform the practitioner of facts that may affect the financial statements, of which management may become aware during the period from the date of the practitioner's report to the date the financial statements are issued.
- A request for management to acknowledge receipt of the engagement letter and to agree to the terms of the engagement outlined therein.

Review of components of groups of entities

A57. The auditor of a set of group financial statements may request a review of a component within a group of entities to be performed in accordance with this ISRE, adapted as necessary in the circumstances of the group audit engagement. The engagement team for the audit of the group financial statements may also specify additional procedures to supplement the work done for the review performed under this ISRE.

Responsibilities of management prescribed by law or regulation (Ref: Para. 35(c))

A58. If, in the circumstances of the engagement, the practitioner concludes that it is not necessary to record certain terms of the engagement in an engagement letter, the practitioner is still required to seek the written agreement from management that it acknowledges and understands that it has the responsibilities set out in this ISRE. This written agreement may use the wording of the law or regulation if such law or regulation establishes responsibilities for management that are equivalent in effect to those described in this ISRE.

Illustrative Engagement Letter (Ref: Para. 35)

A59. An example of an engagement letter is set out in Appendix 1 to this ISRE.

Recurring Engagements (Ref: Para. 36)

A60. The practitioner may decide not to send a new engagement letter or other written agreement each period. However, the following factors may make it appropriate to revise the terms of the review engagement or to remind the entity of existing terms:

- Any indication that the entity misunderstands the objective and scope of the review.
- Any revised or special terms of the review engagement.
- A recent change of senior management.
- A significant change in ownership.
- A significant change in nature or size of the entity's business.
- A change in legal or regulatory requirements.
- A change in the financial reporting framework adopted in the preparation of the financial statements.

Acceptance of a Change in the Terms of the Review Engagement

Request to Change the Terms of the Review Engagement (Ref: Para. 37)

A61. A request from the entity for the practitioner to change the terms of the review engagement may result from factors including:

- A change in circumstances affecting the need for the service.
- Misunderstanding as to the nature of a review as originally requested.
- A restriction on the scope of the review engagement, whether imposed by management or caused by other circumstances.

A62. A change in circumstances that affects the entity's requirements or a misunderstanding concerning the nature of the service originally requested may be considered a reasonable basis for requesting a change in the review engagement.

A63. In contrast, a change may not be considered reasonable if it appears that the change relates to information that is incorrect, incomplete or otherwise unsatisfactory. An example might be where the practitioner is unable to obtain sufficient appropriate evidence regarding receivables and management asks for the engagement to be changed to a related services engagement to avoid a qualified conclusion or a disclaimer of a conclusion by the practitioner.

Request to Change the Nature of the Engagement (Ref: Para. 38)

A64. Before agreeing to change a review engagement to another type of engagement or related service, a practitioner who was engaged to perform a review in accordance with this ISRE may assess, in addition to the matters referred to in this ISRE, any legal or contractual implications of the change.

A65. If the practitioner concludes that there is reasonable justification to change the review engagement to another type of engagement or related service, the work performed in the review engagement to the date of change may be relevant to the changed engagement; however, the work required to be performed and the report to be issued would be those appropriate to the revised engagement. In order to avoid confusing the reader, the report on the other engagement or related service would not include reference to:

(a) The original review engagement; or

(b) Any procedures that may have been performed in the original review engagement, except where the review engagement is changed to an engagement to perform agreed-upon procedures and thus reference to the procedures performed is a normal part of the report.

Communication with Management and Those Charged with Governance (Ref: Para. 40)

A66. In a review of financial statements the practitioner's communications with management take the form of:

(a) The inquiries the practitioner makes in the course of performing the procedures; and

(b) Other communications in the context of having effective two-way communication in understanding matters related to the review engagement in context, and developing a constructive working relationship for the engagement.

A67. The appropriate timing for communications will vary with the circumstances of the engagement. Relevant circumstances include the significance and nature of the matter, and any action expected to be taken by management or those charged with governance. For example, it may be appropriate to communicate a significant difficulty encountered during the review as soon as practicable if management or those charged with governance are able to assist the practitioner to overcome the difficulty.

A68. Law or regulation may restrict the practitioner's communication of certain matters with those charged with governance. For example, law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act. In some circumstances, potential conflicts between the practitioner's obligations of confidentiality and obligations to communicate may be complex. In such cases, the practitioner may consider obtaining legal advice.

Communicating Significant Matters Concerning the Review

A69. Matters to be communicated to management or those charged with governance, as appropriate, under this ISRE may include:

- The practitioner's responsibilities in relation to the review of the financial statements, included in the engagement letter or other suitable form of written agreement.
- Significant findings from the review, for example:
    - The practitioner's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

- ○ Significant findings from performance of procedures, including situations where additional procedures were required to obtain sufficient appropriate evidence. The practitioner may need to confirm that those charged with governance have the same understanding of the facts and circumstances relevant to specific transactions or events.
- ○ Significant difficulties, if any, encountered during the review; for example, unavailability of expected information; unexpected inability to obtain evidence that the practitioner considers necessary for the review; or restrictions imposed on the practitioner by management. In some circumstances, such difficulties may constitute a scope limitation that, if not addressed by management or those charged with governance, may lead to modification of the practitioner's conclusion, which is a further matter required to be communicated and discussed with management or those charged with governance.

A70. In entities where different persons are responsible for the management and the governance of an entity, management has the responsibility to communicate matters of governance interest to those charged with governance. Communication by the practitioner under this ISRE does not relieve management of this responsibility. Similarly, communication by management with those charged with governance of matters that the practitioner is required to communicate does not relieve the practitioner of the responsibility to also communicate them. Communication of these matters by management may, however, affect the form or timing of the practitioner's communication with those charged with governance.

Communication With Third Parties

A71. In some jurisdictions the practitioner may be required by law or regulation to, for example:

- Notify a regulatory or enforcement body of certain matters communicated with those charged with governance. For example, in some countries the practitioner has a duty to report misstatements to authorities where management and those charged with governance fail to take corrective action.
- Submit copies of certain reports prepared for those charged with governance to relevant regulatory or funding bodies or, in some cases, make such reports publicly available.

A72. Unless required by law or regulation to provide a third party with a copy of the practitioner's written communications with those charged with governance, the practitioner may need the prior consent of those charged with governance before doing so.

Performing the Engagement

Materiality in a Review of Financial Statements (Ref: Para. 41)

A73. Determination of materiality is a matter of professional judgment, and is affected by the practitioner's perception of the financial information needs of users of the financial statements. In this context, it is reasonable for the practitioner to assume that users:

- Have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented and reviewed to levels of materiality;
- Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events; and
- Make reasonable economic decisions on the basis of the information in the financial statements.

A74. Viewed in this context, the practitioner's judgment about what is material in relation to the financial statements as a whole is the same regardless of the assurance obtained by a practitioner as the basis for the conclusion on the financial statements.

A75. Financial reporting frameworks often discuss the concept of materiality in the context of the preparation and presentation of financial statements. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that:

- Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;
- Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
- Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group.[12] The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

A76. Such a discussion, if present in the applicable financial reporting framework, provides a frame of reference to the practitioner in determining materiality for the review. If the applicable financial reporting framework does not include a discussion of the concept of materiality, the characteristics referred to above provide the practitioner with such a frame of reference.

[12] For example, the *Framework for the Preparation and Presentation of Financial Statements*, adopted by the International Accounting Standards Board in April 2001, indicates that, for a profit-oriented entity, as investors are providers of risk capital to the enterprise, the provision of financial statements that meet their needs will also meet most of the needs of other users that financial statements can satisfy.

Revising Materiality (Ref: Para. 42)

A77. The practitioner's determination of materiality for the financial statements as a whole may need to be revised during the engagement as a result of:

- A change in the circumstances that occurred during the review;
- New information; or
- A change in the practitioner's understanding of the entity and its operations as a result of performing additional procedures for the review when warranted.

The Practitioner's Understanding (Ref: Para. 43)

A78. The practitioner's primary consideration is whether the understanding obtained is sufficient to perform the review in accordance with this ISRE, and to meet the practitioner's objectives for the engagement. The breadth and depth of the overall understanding that the practitioner obtains is less than that possessed by management. The practitioner is required to exercise professional judgment to assess the sufficiency of understanding of the entity and its environment needed for the review of the financial statements.

A79. Examples of factors the practitioner may consider when obtaining understanding of the entity and its environment are:

- The size and complexity of the entity and its operations.
- The ownership, financing and governance structure, and significant related parties.
- Whether the entity is a component of a group of entities, or an associate entity of another entity.
- Significant or unusual transactions of the entity.
- The level of complexity of the applicable financial reporting framework.
- Whether there are events of conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- The entity's financial reporting obligations or requirements, and whether those obligations or requirements exist under applicable law or regulation or in the context of voluntary financial reporting arrangements established under formalized governance or accountability arrangements, for example, under contractual arrangements with third parties.
- Relevant provisions of laws and regulations that are generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements, such as tax and pension laws and regulations.
- The level of development of the entity's management and governance structure regarding management and oversight of the entity's accounting records and financial reporting systems that underpin preparation of the financial statements.
- The "tone at the top" and the entity's control environment through which the entity addresses risks relating to financial reporting and compliance with the entity's financial reporting obligations.

- The degree of complexity of the entity's financial accounting and reporting systems, and resulting financial statements.
- The types of matters that required accounting adjustments in the entity's financial statements in prior periods.
- 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.

A80. The practitioner may also consider obtaining reports from other practitioners, if any, and if considered necessary. For example, if the entity is a group entity, reports may be obtained from practitioners engaged to audit or review the financial statements of components of the entity, or who have been engaged to perform procedures for the review in relation to branch operations of the entity located elsewhere.

Updating the Practitioner's Understanding

A81. The practitioner's understanding of the entity and its environment is obtained throughout the review engagement and is updated as changes in conditions and circumstances occur. Initial procedures for client acceptance and continuance at the beginning of the current review engagement are based on the practitioner's preliminary understanding of the entity and the engagement circumstances. The practitioner's understanding is obtained on an iterative basis throughout performance of the engagement. The understanding applied in planning and designing the work effort for the review may be further expanded and refined through performance of the inquiry, analytical procedures and additional procedures where necessary, and during evaluation of the results obtained.

Designing and Performing Inquiry and Analytical Procedures (Ref: Para. 44)

A82. The planned nature, timing and extent of the procedures the practitioner considers are needed to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole are influenced by:

(a) The requirements of this ISRE;

(b) The agreed terms of the review engagement; and

(c) Requirements established under applicable law or regulation, including additional reporting requirements contained in applicable laws or regulations.

A83. A review engagement primarily involves performing inquiry and analytical procedures. When designed and performed effectively in the light of the practitioner's understanding as required in this ISRE, the inquiry and analytical procedures performed are expected to:

- Be sufficient for the practitioner to be able to identify areas in the financial statements where material misstatements are likely to arise, and to design procedures to address those areas; and
- Provide an adequate basis for a conclusion on the financial statements as a whole.

The practitioner is required by this ISRE, however, to perform additional procedures in certain circumstances, including when the results of the inquiry and analytical procedures performed do not provide an adequate basis for the practitioner to form a conclusion as required under this ISRE.

A84. The application of professional skepticism in a review is critical to the practitioner's assessment of management responses to the practitioner's inquiries, which comprise an important component of the evidence the practitioner seeks to obtain to be able to form a conclusion on the financial statements in accordance with the requirements of this ISRE. A skeptical evaluation of responses provided by management is needed to enable the practitioner to evaluate whether there are any matter(s) that would cause the practitioner to believe the financial statements may be materially misstated.

Inquiry (Ref: Para. 45)

A85. In a review, inquiry consists of seeking information of management and other persons within the entity with knowledge of financial and accounting matters, as the practitioner considers appropriate in the engagement circumstances. The practitioner may also extend inquiries to obtain non-financial data as relevant to performance of the review procedures. Evaluating responses is integral to the inquiry process.

A86. Depending on the engagement circumstances, inquiries may include:

- Inquiries about the entity's control environment, and "tone at the top," as they relate to the entity's accounting and financial reporting systems and compliance with financial reporting obligations.
- Inquiries concerning the entity's procedures for recording, classifying and summarizing transactions, accumulating information for inclusion in the financial statements and related disclosures.
- Inquiries concerning accounting and financial reporting matters such as:
    - Whether all transactions have been recorded.
    - The entity's accounting principles and practices, and any changes thereto, in the context of the applicable financial reporting framework.
    - Whether the financial statements have been prepared in accordance with the applicable financial reporting framework.
    - Existence of related parties, including their identification and significant disclosures concerning related parties.
    - Events subsequent to the date of the financial statements that could have a material effect on the financial statements.
- Inquiries about actions taken at meetings of owners, those charged with governance and committees thereof, and proceedings at other meetings, if any, that affect the information and disclosures contained in the financial statements.
- Inquiries about communications the entity has received, or expects to receive or obtain from regulatory agencies.

- Inquiries about matters arising in the course of applying other procedures. When performing further inquiries in relation to identified inconsistencies, the practitioner considers the reasonableness and consistency of management's responses in light of the results obtained from other procedures and the practitioner's knowledge and understanding of the entity and the industry in which it operates.

A87. Evidence obtained through inquiry is often the principal source of evidence about management intent. Information available to support management's intent may be limited, however, and, in that case, understanding management's past history of carrying out its stated intentions, management's stated reasons for choosing a particular course of action, and management's ability to pursue a specific course of action may provide relevant information to corroborate the evidence obtained through inquiry.

Analytical Procedures (Ref: Para. 46)

A88. In a review of financial statements, performing analytical procedures assists the practitioner by:

- Expanding the practitioner's understanding of the entity and its environment, including identifying areas where material misstatements are likely to arise in the financial statements.
- Identifying inconsistencies or variances from expected trends, values or norms in the financial statements such as the level of congruence of the financial statements with key data, including key performance indicators.
- Providing corroborative evidence in relation to other inquiry or analytical procedures already performed.
- Serving as additional procedures when the practitioner becomes aware of matter(s) that cause the practitioner to believe that the financial statements may be materially misstated. An example of such an additional procedure is a comparative analysis of monthly revenue and cost figures across profit centers, branches or other components of the entity, to provide evidence about financial information contained in line items or disclosures contained in the financial statements.

A89. Understanding the techniques, purposes and limitations of analytical procedures is important in order to be able to apply these procedures effectively to develop sufficient appropriate evidence as the basis for a conclusion on the financial statements. Various methods may be used to perform analytical procedures. These methods range from performing simple comparisons to performing complex analysis using statistical techniques.

A90. The practitioner may, for example, apply analytical procedures to evaluate the financial information underlying the financial statements through analysis of plausible relationships among both financial and non-financial data and assessment of results for consistency with expected values with a view to identifying relationships and individual items that appear unusual, or that vary from expected trends or values. The practitioner would compare recorded amounts, or ratios developed from recorded amounts, to expectations developed by the practitioner from information obtained from relevant sources. Examples of sources of information the practitioner ordinarily uses to develop expectations are:

- Financial information for comparable prior period(s), taking known changes into account.
- Information about expected operating and financial results, such as budgets or forecasts including extrapolations from interim or annual data.
- Relationships among elements of financial information within the period.
- Information regarding the industry in which the entity operates, such as gross margin information, or comparison of the entity's ratio of sales to accounts receivable with industry averages or with other entities of comparable size in the same industry.
- Relationships of financial information with relevant non-financial information, such as payroll costs to number of employees.

A91. The practitioner's consideration of whether data to be used for analytical procedures are satisfactory for the intended purpose(s) of those procedures is based on the practitioner's understanding of the entity and its environment, and is influenced by the nature and source of the data, and by the circumstances in which the data are obtained. The following considerations are relevant:

- Source of the information available. For example, information may be more reliable when it is obtained from independent sources outside the entity;
- Comparability of the information available. For example, broad industry data may need to be supplemented or be adjusted to be comparable to data of an entity that produces and sells specialized products;
- Nature and relevance of the information available; for example, whether the entity's budgets are established as results to be expected rather than as goals to be achieved; and
- The knowledge and expertise involved in the preparation of the information, and related controls that are designed to ensure its completeness, accuracy and validity. Such controls include, for example, controls over the preparation, review and maintenance of budgetary information.

Procedures in a Review Engagement Related to Specific Circumstances

Fraud and Non-Compliance with Laws or Regulations (Ref: Para. 51(d))

A92. Under this ISRE, if the practitioner has identified or suspects fraud or illegal acts, the practitioner is required to determine whether there is a responsibility to report the occurrence or suspicion to a party outside the entity. Although the practitioner's professional duty to maintain the confidentiality of client information may preclude such reporting, the practitioner's legal responsibilities may override the duty of confidentiality in some circumstances

Events or Conditions that May Cast Doubt Regarding Use of the Going Concern Assumption in the Financial Statements (Ref: Para. 52)

A93. The practitioner is required to perform procedures to obtain information about whether there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, and about management's assessment of the entity as a going concern. The list of factors below gives examples of conditions that provide perspective for the practitioner's procedures in this area. The list is not all-inclusive, and the existence of one or more of the items does not always signify that uncertainty exists about whether the entity can continue as a going concern.

Financial

- Net liability or net current liability position
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment, or excessive reliance on short-term borrowings to finance long-term assets
- Indications of withdrawal of financial support by creditors
- Negative operating cash flows indicated by historical or prospective financial statements
- Adverse key financial ratios
- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows
- Arrears or discontinuance of dividends
- Inability to pay creditors on due dates
- Inability to comply with the terms of loan agreements
- Change from credit to cash-on-delivery transactions with suppliers
- Inability to obtain financing for essential new product development or other essential investments

Operating

- Management intentions to liquidate the entity or to cease operations
- Loss of key management without replacement
- Loss of a major market, key customer(s), franchise, license, or principal supplier(s)
- Labor difficulties
- Shortages of important supplies
- Emergence of a highly successful competitor

Other

- Non-compliance with capital or other statutory requirements
- Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy

- Changes in law or regulation or government policy expected to adversely affect the entity
- Uninsured or underinsured catastrophes when they occur

The significance of such events or conditions often can be mitigated by other factors. For example, the effect of an entity being unable to make its normal debt repayments may be counter-balanced by management's plans to maintain adequate cash flows by alternative means, such as by disposing of assets, rescheduling loan repayments, or obtaining additional capital. Similarly, the loss of a principal supplier may be mitigated by the availability of a suitable alternative source of supply.

Reconciling the Financial Statements to the Underlying Accounting Records (Ref: Para. 56)

A94. The practitioner ordinarily obtains evidence that the financial statements agree with, or reconcile to, the underlying accounting records by tracing the financial statement amounts and balances to the relevant accounting records such as the general ledger, or to a summary record or schedule that reflects the agreement or reconciliation of the financial statement amounts with the underlying accounting records (such as a trial balance).

Significant or Unusual Transactions in the Accounting Records

A95. The practitioner may consider, where practicable, reviewing the accounting records with a view to identifying significant or unusual transactions that may require specific attention in the review.

Performing Additional Procedures (Ref: Para. 48, 57)

A96. The practitioner's judgment about the nature, timing and extent of additional procedures that are needed is guided by information obtained from the practitioner's evaluation of the results of the procedures already performed, and the practitioner's updated understanding obtained in the course of the engagement.

A97. In deciding how to address inconsistencies or unexpected variances identified with reference to amounts and disclosures contained in the financial statements where practitioner has cause to believe that material misstatements may exist, the practitioner designs additional procedures focused on the affected amounts or disclosures. Those additional procedures may be:

- Additional inquiry or analytical procedures, for example, being performed in greater detail or being focused on those amounts or disclosures or on specific accounts or transactions; or
- Other types of procedures, for example, verification procedures, focused on obtaining evidence about the existence, valuation or measurement, or timing of those amounts or disclosures in respect of specific accounts or transactions.

A98. For example:

- Responses to inquiries may provide information that differs significantly from other information the practitioner has obtained, for example, information regarding the possibility of management bias in relation to deriving accounting estimates that are included in the financial statements. The practitioner then needs to decide how to address such inconsistencies with reference to the affected amounts and disclosures, and needs to design additional procedures to be able to identify material misstatements in those amounts and disclosures if they exist.

- Analytical procedures performed may identify fluctuations or relationships that are inconsistent with other relevant information or differ from expected values by a significant amount. If management is unable to provide explanations that satisfy the practitioner or that the practitioner does not consider adequate in light of other review evidence obtained, the practitioner may decide to direct additional procedures towards, for example, confirming balances or verifying measurements or valuations reflected in account balances.

A99. In some cases, a practitioner may decide to perform additional procedures to verify management's assertions on key account balances or transactions, for example, by obtaining external confirmations from third parties. The fact that the practitioner performs such procedures does not alter the overall nature of the engagement; it remains a review engagement.

Evaluation of Results Obtained from Additional Procedures (Ref: Para. 58)

A100. If the practitioner is not able to obtain sufficient appropriate evidence to either conclude that the matter is not likely to cause the financial statements as a whole to be materially misstated or determine that the matter does cause the financial statements as a whole to be materially misstated, then a scope limitation exists and paragraph 69 applies.

Written Representations (Ref: Para. 59–60)

A101. The practitioner is required to request written representations from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned in the form of a representation letter addressed to the practitioner. Written representations confirming that management has fulfilled its responsibilities described in the agreed terms of the engagement are described in the same manner as described in the agreed terms of the engagement. Written representations may also be needed to complete the practitioner's evidence with respect to certain items or disclosures reflected in the financial statements where the practitioner considers such representations to be important in forming a conclusion on the financial statements on either a modified or unmodified basis.

A102. In some cases, management may include in the written representations qualifying language to the effect that representations are made to the best of management's knowledge and belief. It is reasonable for the practitioner to accept such wording if the practitioner is satisfied that the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.

Forming the Practitioner's Conclusion on the Financial Statements

Description of the Applicable Financial Reporting Framework (Ref: Para. 66(a))

A103. The preparation of the financial statements by management requires the inclusion of an adequate description of the applicable financial reporting framework in the financial statements. That description is important because it advises users of the financial statements of the framework on which the financial statements are based. If the financial statements are special purpose financial statements, they may be prepared under a special purpose financial reporting framework that is available only to the engaging party and the practitioner. Description of the special purpose financial reporting framework used is important as the special purpose financial statements may not be appropriate for any use other than the intended use identified for the special purpose financial statements.

A104. A description that the financial statements are prepared in accordance with a particular applicable financial reporting framework is appropriate only if the financial statements comply with all the requirements of that framework that are effective during the period covered by the financial statements.

A105. A description of the applicable financial reporting framework that contains imprecise qualifying or limiting language (for example, "the financial statements are in substantial compliance with International Financial Reporting Standards") is not an adequate description of that framework as it may mislead users of the financial statements.

Disclosure of Effects of Material Transactions and Events on Information Conveyed in the Financial Statements (Ref: Para. 66(b)(vi))

A106. It is common for financial statements prepared in accordance with a general purpose framework to present an entity's financial position, financial performance and cash flows. In such circumstances, the practitioner is required under this ISRE to evaluate whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the entity's financial position, financial performance and cash flows.

A107. The practitioner's conclusion covers the complete set of financial statements as defined by the applicable financial reporting framework. For example, in the case of many general purpose frameworks, the financial statements include: a statement of financial position, a statement of financial performance, a statement of changes in equity, a cash flow statement, and a summary of significant accounting policies and other explanatory information. In some jurisdictions, additional information might also be considered to be an integral part of the financial statements.

A108. There may be cases where the financial statements, although prepared in accordance with the requirements of a fair presentation framework, do not achieve fair presentation. Where this is the case, it may be possible for management to include additional disclosures in the financial statements beyond those specifically required by the framework or, in extremely rare circumstances, to depart from a requirement in the framework in order to achieve fair presentation of the financial statements.

A109. When the financial statements are prepared in accordance with a compliance framework, the practitioner evaluates whether the financial statements prepared in accordance with the applicable compliance framework are misleading. It will be extremely rare for the practitioner to consider financial statements prepared in accordance with a compliance framework to be misleading if the practitioner determined at the commencement of the review engagement that the framework is acceptable.

Qualitative Aspects of the Entity's Accounting Practices (Ref: Para. 67(b))

A110. In considering the qualitative aspects of the entity's accounting practices, the practitioner may become aware of possible bias in management's judgments. The practitioner may conclude that the cumulative effect of a lack of neutrality, together with the effect of apparent uncorrected misstatements, causes the financial statements as a whole to be materially misstated. Indicators of a lack of neutrality that may affect the practitioner's evaluation of whether the financial statements as a whole may be materially misstated include the following:

- The selective correction of apparent misstatements brought to management's attention during the review (for example, correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings).
- Possible management bias in the making of accounting estimates.

A111. Indicators of possible management bias do not necessarily mean there are misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the practitioner's consideration of whether the financial statements as a whole may be materially misstated.

Scope Limitations (Ref: Para. 69)

A112. Inability to perform a specific procedure does not constitute a limitation on the scope of the review if the practitioner is able to obtain sufficient appropriate evidence by performing alternative procedures. If this is not possible, the requirements of paragraphs 73(b) and 81 apply as appropriate.

A113. Limitations imposed by management may have other implications for the review, such as for the practitioner's consideration of areas where the financial statements are likely to be materially misstated, and engagement continuance.

Inability to Form a Conclusion Due to a Management-Imposed Limitation on the Scope of the Review after Engagement Acceptance (Ref: Para. 81(b))

A114. The practicality of withdrawing from the engagement may depend on the stage of completion of the engagement at the time that management imposes the scope limitation. If the practitioner has substantially completed the review, the practitioner may decide to complete the review to the extent possible, disclaim a conclusion and explain the scope limitation in the Basis for Disclaimer of Conclusion paragraph prior to withdrawing.

A115. In certain circumstances, withdrawal from the engagement may not be possible if the practitioner is required by law or regulation to continue the engagement. For example, this may be the case for a practitioner appointed to review the financial statements of a public sector entity. It may also be the case in jurisdictions where the practitioner is appointed to review the financial statements covering a specific period, or appointed for a specific period and is prohibited from withdrawing before the completion of the review of those financial statements or before the end of that period, respectively. The practitioner may also consider it necessary to include an Other Matter paragraph in the practitioner's report to explain why it is not possible for the practitioner to withdraw from the engagement.

Communication with Regulators or the Entity's Owners

A116. When the practitioner concludes that withdrawal from the engagement is necessary because of a scope limitation, there may be a professional, legal or regulatory requirement for the practitioner to communicate matters relating to the withdrawal from the engagement to regulators or the entity's owners.

The Practitioner's Report (Ref: Para. 82–89)

A117. The written report encompasses reports issued in hard copy format and those using an electronic medium.

Elements of the Practitioner's Report (Ref: Para. 82)

A118. A title indicating the report is the report of an independent practitioner, for example, "Independent Practitioner's Review Report," affirms that the practitioner has met all of the relevant ethical requirements regarding independence and, therefore, distinguishes the independent practitioner's report from reports issued by others.

A119. Law or regulation may specify to whom the practitioner's report is to be addressed in that particular jurisdiction. The practitioner's report is normally addressed to those for whom the report is prepared, often either to the shareholders or to those charged with governance of the entity whose financial statements are being reviewed.

A120. When the practitioner is aware that the financial statements that have been reviewed will be included in a document that contains other information, such as a financial report, the practitioner may consider, if the form of presentation allows, identifying the page numbers on which the financial statements that have been reviewed are presented. This helps users to identify the financial statements to which the practitioner's report relates.

Management's Responsibility for the Financial Statements (Ref: Para. 82(d))

A121. The premise relating to the responsibilities of management, on which a review of financial statements is conducted in accordance with this ISRE, is fundamental to performing the review and reporting on the engagement. The description of management's responsibilities in the practitioner's report includes reference to both:

- The responsibility for preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation; and

- The responsibility for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

as this helps to explain to users of the report the premise on which the review is performed.

A122. The practitioner's report need not refer specifically to "management" but instead may use the term that is appropriate in the context of the legal framework in the particular jurisdiction. In some jurisdictions, the appropriate reference is to those charged with governance of the entity.

A123. There may be circumstances when it is appropriate for the practitioner to add to the description of management's responsibilities as described in this ISRE to reflect additional responsibilities that are relevant to the preparation of the financial statements in the context of a jurisdiction, or due to the type of entity.

A124. In some jurisdictions, law or regulation prescribing management's responsibilities may specifically refer to a responsibility for the adequacy of accounting books and records, or accounting system. As books, records and systems are an integral part of internal control, this ISRE does not use these descriptions or make any specific reference to them.

The Practitioner's Responsibility (Ref: Para. 82(f))

A125. The practitioner's report states that the practitioner's responsibility is to express a conclusion on the financial statements based on the review performed, in order to contrast the practitioner's responsibility with management's responsibility for preparation of the financial statements.

Reference to standards (Ref: Para. 82(f)(i))

A126. The reference to the standards used by the practitioner for the review conveys to the users of the practitioner's report that the review has been conducted in accordance with established standards.

Communication of the Nature of a Review of Financial Statements (Ref: Para. 82(f)(ii), 83)

A127. The description of the review in the practitioner's report explains the scope and limitations of the review for the benefit of users of the report. This explanation clarifies, for avoidance of doubt, that the review is not an audit, is different from an audit, and that, had an audit been performed, the practitioner may have uncovered material misstatements that could exist in the financial statements that were reviewed.

"Present Fairly, in All Material Respects" or "Gives a True and Fair View" (Ref: Para. 82(g))

A128. Whether the phrase "present fairly, in all material respects," or the phrase "gives a true and fair view" is used in any particular jurisdiction is determined by the law or regulation governing the review of financial statements in that jurisdiction, or by generally accepted practice in that jurisdiction. Where law or regulation requires the use of different wording, this does not affect the requirement in paragraph 68 of this ISRE for the practitioner to evaluate the fair presentation of financial statements prepared in accordance with a fair presentation framework.

Description of information that the financial statements present

A129. In the case of financial statements prepared in accordance with a fair presentation framework, the practitioner's conclusion states that nothing has come to the practitioner's attention that causes the practitioner to believe that the financial statements do not present fairly, in all material respects, or do not give a true and fair view in accordance with the applicable fair presentation framework. For example, in the case of many general purpose frameworks, the financial statements are required to present the financial position of the entity as at the end of a period, and the entity's financial performance and cash flows for that period.

Description of the applicable financial reporting framework and how it may affect the practitioner's conclusion

A130. The identification of the applicable financial reporting framework in the practitioner's conclusion is intended to advise users of the practitioner's report of the context in which that conclusion is expressed. It is not intended to limit the evaluation required in paragraph 30(a). The applicable financial reporting framework is identified in such terms as:

> "… in accordance with International Financial Reporting Standards" or
>
> "… in accordance with accounting principles generally accepted in Jurisdiction X …"

A131. When the applicable financial reporting framework encompasses financial reporting standards and legal or regulatory requirements, the framework is identified in such terms as "… in accordance with International Financial Reporting Standards and the requirements of Jurisdiction X Corporations Act."

Signature of the Practitioner (Ref: Para. 82(j))

A132. The practitioner's signature is either in the name of the practitioner's firm, the personal name of the practitioner, or both, as appropriate for the particular jurisdiction. In addition to the practitioner's signature, in certain jurisdictions, the practitioner may be required to declare in the practitioner's report the practitioner's professional accountancy designation or the fact that the practitioner or firm, as appropriate, has been recognized by the appropriate licensing authority in that jurisdiction.

Alerting Readers that the Financial Statements Are Prepared in Accordance with a Special Purpose Framework (Ref: Para. 85)

A133. The special purpose financial statements may be used for purposes other than those for which they were intended. For example, a regulator may require certain entities to place the special purpose financial statements on public record. To avoid misunderstandings, the practitioner alerts users of the practitioner's report that the financial statements are prepared in accordance with a special purpose framework and, therefore, may not be suitable for another purpose.

Restriction on Distribution or Use

A134. In addition to the alert required by paragraph 85, the practitioner may consider it appropriate to indicate that the practitioner's report is intended solely for the specific users. Depending on the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the practitioner's report. In these circumstances, the paragraph referred to in paragraph 85 may be expanded to include these other matters, and the heading modified accordingly.

Other Reporting Responsibilities (Ref: Para. 88)

A135. In some jurisdictions, the practitioner may have additional responsibilities to report on other matters that are supplementary to the practitioner's responsibility under this ISRE. For example, the practitioner may be asked to report certain matters if they come to the practitioner's attention during the course of the review of the financial statements. Alternatively, the practitioner may be asked to perform and report on additional specified procedures, or to express a conclusion on specific matters, such as the adequacy of accounting books and records. Standards on reviews of financial statements in the specific jurisdiction may provide guidance on the practitioner's responsibilities with respect to specific additional reporting responsibilities in that jurisdiction.

A136. In some cases, the relevant law or regulation may require or permit the practitioner to report on these other responsibilities within the practitioner's report on the financial statements. In other cases, the practitioner may be required or permitted to report on them in a separate report.

A137. These other reporting responsibilities are addressed in a separate section of the practitioner's report, to clearly distinguish them from the practitioner's responsibility under this ISRE to report on the financial statements. Where relevant, this section may contain sub-heading(s) that describe(s) the content of the other reporting responsibility paragraph(s).

Date of the Practitioner's Report (Ref: Para. 82(i), 89)

A138. The date of the practitioner's report informs the user of the practitioner's report that the practitioner has considered the effect of events and transactions of which the practitioner became aware and that occurred up to that date.

A139. The practitioner's conclusion is provided on the financial statements and the financial statements are the responsibility of management. The practitioner is not in a position to conclude that sufficient appropriate evidence has been obtained until the practitioner is satisfied that all the statements that comprise the financial statements, including the related notes, have been prepared and management has accepted responsibility for them.

A140. In some jurisdictions, law or regulation identifies the individuals or bodies (for example, the directors) that are responsible for concluding that all the statements that comprise the financial statements, including the related notes, have been prepared, and specifies the necessary approval process. In such cases, evidence is obtained of that approval before dating the report on the financial statements. In other jurisdictions, however, the approval process is not prescribed in law or regulation. In such cases, the procedures the entity follows in preparing and finalizing its financial statements in view of its management and governance structures are considered in order to identify the individuals or body with the authority to conclude that all the statements that comprise the financial statements, including the related notes, have been prepared. In some cases, law or regulation may identify the point in the financial statement reporting process at which the review is expected to be complete.

A141. In some jurisdictions, final approval of the financial statements by shareholders is required before the financial statements are issued publicly. In these jurisdictions, final approval by shareholders is not necessary for the practitioner to conclude that sufficient appropriate evidence has been obtained. The date of approval of the financial statements for purposes of this ISRE is the earlier date on which those with the recognized authority determine that all the statements that comprise the financial statements, including the related notes, have been prepared and that those with the recognized authority have asserted that they have taken responsibility for them.

Practitioner's Report Prescribed by Law or Regulation (Ref: Para. 33, 82)

A142. The practitioner may be required to comply with legal or regulatory requirements in addition to this ISRE. Where this is the case, the practitioner may be obliged to use a layout or wording in the practitioner's report that differs from that described in this ISRE. Consistency in the practitioner's report, when the review has been conducted in accordance with this ISRE, promotes credibility in the global marketplace by making more readily identifiable those reviews of financial statements that have been conducted in accordance with globally recognized standards. When the differences between the legal or regulatory requirements and this ISRE relate only to the layout and wording of the practitioner's report and, at a minimum, the requirements of paragraph 82 of this ISRE are included in the practitioner's report, the practitioner's report may refer to this ISRE. Accordingly, in such circumstances the practitioner is considered to have complied with the requirements of this ISRE, even when the layout and wording used in the practitioner's report are specified by legal or regulatory reporting requirements. Where specific requirements in a particular jurisdiction do not conflict with this ISRE, adoption of the layout and wording used in this ISRE assists users of the practitioner's report to more readily recognize the practitioner's report as a report on a review of financial statements conducted in accordance with this ISRE. Circumstances where law or regulation prescribes the layout or wording of the practitioner's report in terms that are significantly different from the requirements of this ISRE are addressed in paragraph 33.

Practitioner's Report for Reviews Conducted in Accordance with Both Relevant Standards of a Specific Jurisdiction and this ISRE (Ref: Para. 82(f)(i))

A143. When, in addition to complying with the requirements of this ISRE, the practitioner also complies with relevant national standards, the report may refer to the review having been performed in accordance with both this ISRE and relevant national standards for engagements to review financial statements. However, a reference to both this ISRE and relevant national standards is not appropriate if there is a conflict between the requirements of this ISRE and those in the relevant national standards that would lead the practitioner to form a different conclusion or not to include an Emphasis of Matter paragraph that, in the particular circumstances, would be required by this ISRE. In such a case, the practitioner's report refers only to the relevant standards (either this ISRE or the relevant national standards) in accordance with which the practitioner's report has been prepared.

Illustrative Review Reports

A144. Appendix 2 to this ISRE contains illustrations of practitioners' reports for a review of financial statements incorporating the elements set out in paragraph 82.

Appendix 1
(Ref: Para. A59)

Illustrative Engagement Letter for an Engagement to Review Historical Financial Statements

The following is an example of an engagement letter for a review of general purpose financial statements (prepared in accordance with International Financial Reporting Standards (IFRS)), which illustrates the relevant requirements and guidance contained in this ISRE. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this ISRE. It will need to be varied according to individual requirements and circumstances. It is drafted to refer to the review of financial statements for a single reporting period and would require adaptation if intended or expected to apply to recurring reviews. It may be appropriate to seek legal advice that any proposed letter is suitable.

***

To the appropriate representative of management or those charged with governance of ABC Company:[14]

[*The objective and scope of the review*]

You[15] have requested that we review the financial statements of ABC Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. We are pleased to confirm our acceptance and our understanding of this review engagement by means of this letter.

Our review will be conducted with the objective of expressing our conclusion on the financial statements, that is "Based on our review, nothing has come to our attention that causes us to believe that these financial statements do not present fairly, in all material respects, (*or do not give a true and fair view*) in accordance with International Financial Reporting Standards (IFRS)."

[*The practitioner's responsibilities*]

We will conduct our review in accordance with International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Historical Financial Statements*. ISRE 2400 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the

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[14] The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons—see paragraph 34 of this ISRE.

[15] Throughout this letter, references to "you," "we," "us," "management," "those charged with governance" and "practitioner" would be used or amended as appropriate in the circumstances.

applicable financial reporting framework. ISRE 2400 also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE 2400 consists primarily of making inquiries of management and others within the entity involved in financial and accounting matters, applying analytical procedures and evaluating the sufficiency and appropriateness of evidence obtained. A review also requires performance of additional procedures when the practitioner becomes aware of matters that cause the practitioner to believe the financial statements as a whole may be materially misstated. These procedures are performed to enable us to express our conclusion on the financial statements in accordance with ISRE 2400. The procedures selected will depend on what we consider necessary applying our professional judgment, based on our understanding of ABC Company and its environment, and our understanding of IFRS and its application in the industry context.

As we are engaged to review the financial statements and a review is not an audit of the financial statements:

(a) There is a commensurate higher risk that any material misstatements that exist in the financial statements reviewed may not be revealed by the review, even though the review is properly performed in accordance with ISRE 2400.

(b) In expressing our conclusion from the review of the financial statements, our report on the financial statements will state that an audit has not been performed and will expressly disclaim any audit opinion on the financial statements.

[*The responsibilities of management and identification of the applicable financial reporting framework (for purposes of this example it is assumed that the practitioner has not determined that the law or regulation prescribes those responsibilities in appropriate terms; the descriptions in paragraph 30(b) of this ISRE are therefore used).*]

Our review will be conducted on the basis that [management and, where appropriate, those charged with governance][16] acknowledge and understand that they have the responsibility:

(a) For the preparation and fair presentation of the financial statements in accordance with IFRS;[17]

(b) For such internal control as [management] determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and

(c) To provide us with:

    (i) Access to all information of which [management] is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

[16] Use terminology as appropriate in the circumstances.

[17] Or, if appropriate, "For the preparation of financial statements that give a true and fair view in accordance with IFRS."

(ii) Additional information that we may request from [management] for the purpose of the review; and

(iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain evidence.

As part of our review, we will request from [management and, where appropriate, those charged with governance], written confirmation concerning representations made to us in connection with the review.

We look forward to full cooperation from your staff during our review.

[*Other relevant information*]

[*Insert other information, such as fee arrangements, billings and other specific terms, as appropriate*.]

[*Reporting*]

[*Insert appropriate reference to the expected form and content of the practitioner's report.*]

The form and content of our report may need to be amended in the light of our findings obtained from the review.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our review of the financial statements including our respective responsibilities.

XYZ & Co.

Acknowledged and agreed on behalf of ABC Company by

(signed)

....

Name and Title

Date

Appendix 2

(Ref: Para. A144)

Illustrative Practitioners' Review Reports

Review Reports on General Purpose Financial Statements

Illustrative Review Reports with Unmodified Conclusions

- Illustration 1: A practitioner's report on financial statements prepared in accordance with a fair presentation framework designed to meet the common financial information needs of a wide range of users (for example, International Financial Reporting Standards for Small and Medium-sized Entities).

Illustrative Review Reports with Modified Conclusions

- Illustration 2: A practitioner's report containing a qualified conclusion due to an apparent material misstatement of the financial statements. Financial statements prepared in accordance with a compliance framework designed to meet the common information needs of a wide range of users. (Financial statements prepared using a compliance framework)
- Illustration 3: A practitioner's report containing a qualified opinion due to the practitioner's inability to obtain sufficient appropriate evidence. (Financial statements prepared using a fair presentation framework—IFRS)
- Illustration 4: A practitioner's report containing an adverse conclusion due to material misstatement of the financial statements. (Financial statements prepared using a fair presentation framework—IFRS)
- Illustration 5: A practitioner's report containing a disclaimer of conclusion due to the practitioner's inability to obtain sufficient appropriate evidence about multiple elements of the financial statements—resulting in inability to complete the review. (Financial statements prepared using a fair presentation framework—IFRS)

Review Reports on Special Purpose Financial Statements

- Illustration 6: A practitioner's report on a complete set of financial statements prepared in accordance with the financial reporting provisions of a contract (for purposes of this illustration, a compliance framework).
- Illustration 7: A practitioner's report on a complete set of financial statements prepared in accordance with the cash receipts and disbursements basis of accounting (for purposes of this illustration, a compliance framework).

Illustration 1:

Circumstances include the following:

- **Review of a complete set of financial statements.**
- **The financial statements are prepared for a general purpose by management of the entity in accordance with International Financial Reporting Standards for Small and Medium-sized Entities.**
- **The terms of the review engagement reflect the description of management's responsibility for the financial statements in paragraph 30(b) of this ISRE.**
- **In addition to the review of the financial statements, the practitioner has other reporting responsibilities under local law.**

INDEPENDENT PRACTITIONER'S REVIEW REPORT

[Appropriate Addressee]

Report on the Financial Statements[18]

We have reviewed the accompanying financial statements of ABC Company that comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's[19] *Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards for Small and Medium-sized Entities,[20] and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Historical Financial Statements*. ISRE 2400 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

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[18] The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

[19] Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

[20] Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards for Small and Medium-sized Entities, and for such …"

A review of financial statements in accordance with ISRE 2400 consists primarily of making inquiries of management and others within the entity involved in financial and accounting matters, applying analytical procedures, and evaluating the sufficiency and appropriateness of evidence obtained. A review also requires performance of additional procedures when the practitioner becomes aware of matters that cause the practitioner to believe the financial statements as a whole may be materially misstated.

We believe that the evidence we have obtained in our review is sufficient and appropriate to provide a basis for our conclusion.

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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these financial statements do not present fairly, in all material respects, (or *do not give a true and fair view of)* the financial position of ABC Company as at December 31, 20X1, and (*of)* its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards for Small and Medium-sized Entities.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the practitioner's report will vary depending on the nature of the practitioner's other reporting responsibilities.]

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

Illustration 2:

Circumstances include the following:

- **Review of a complete set of financial statements required by law or regulation.**
- **The financial statements are prepared for a general purpose by management of the entity in accordance with the Financial Reporting Framework (XYZ Law) of Jurisdiction X (that is, a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).**
- **The terms of the review engagement reflect the description of management's responsibility for the financial statements in paragraph 30(b) of this ISRE.**
- **Based on the review, inventories are misstated. The misstatement is material but not pervasive to the financial statements.**
- **In addition to the review of the financial statements, the practitioner has other reporting responsibilities under local law.**

INDEPENDENT PRACTITIONER'S REVIEW REPORT

[Appropriate Addressee]

Report on the Financial Statements[21]

We have reviewed the accompanying financial statements of ABC Company that comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's[22] *Responsibility for the Financial Statements*

Management is responsible for the preparation of these financial statements in accordance with XYZ Law of Jurisdiction X, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Historical Financial Statements*. ISRE 2400 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance

[21] The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

[22] Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE 2400 consists primarily of making inquiries of management and others within the entity involved in financial and accounting matters, applying analytical procedures, and evaluating the sufficiency and appropriateness of evidence obtained. A review also requires performance of additional procedures when the practitioner becomes aware of matters that cause the practitioner to believe the financial statements as a whole may be materially misstated.

We believe that the evidence we have obtained in our review is sufficient and appropriate to provide a basis for our qualified conclusion.

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.

Basis for Qualified Conclusion

The company's inventories are carried in the statement of financial position at xxx. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from the requirements of the Financial Reporting Framework (XYZ Law) of Jurisdiction X. The company's records indicate that, had management stated the inventories at the lower of cost and net realizable value, an amount of xxx would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by xxx, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively.

Qualified Conclusion

Except for the effects of the matter described in the Basis for Qualified Conclusion paragraph, based on our review, nothing has come to our attention that causes us to believe that the financial statements of ABC Company are not prepared, in all material respects, in accordance with the Financial Reporting Framework (XYZ Law) of Jurisdiction X.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the practitioner's report will vary depending on the nature of the practitioner's other reporting responsibilities.]

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

Illustration 3:

Circumstances include the following:

- **Review of a complete set of general purpose financial statements prepared by management of the entity in accordance with [a financial reporting framework designed to achieve fair presentation other than International Financial Reporting Standards].**
- **The terms of the review engagement reflect the description of management's responsibility for the financial statements in paragraph 30(b) of this ISRE.**
- **The practitioner was unable to obtain sufficient appropriate evidence regarding an investment in a foreign affiliate. The possible effects of the inability to obtain sufficient appropriate evidence are deemed to be material but not pervasive to the financial statements.**
- **The practitioner does not have other reporting responsibilities under local law in addition to the review of the consolidated financial statements.**

INDEPENDENT PRACTITIONER'S REVIEW REPORT

[Appropriate Addressee]

We have reviewed the accompanying financial statements of ABC Company that comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's[23] *Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with [name of applicable financial reporting framework including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards],[24] and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Historical Financial Statements*. ISRE 2400 requires us to conclude whether anything has come to our attention that causes us to believe that the

[23] Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

[24] Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such …"

financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE 2400 consists primarily of making inquiries of management and others within the entity involved in financial and accounting matters, applying analytical procedures, and evaluating the sufficiency and appropriateness of evidence obtained. A review also requires performance of additional procedures when the practitioner becomes aware of matters that cause the practitioner to believe the financial statements as a whole may be materially misstated.

We believe that the evidence we have obtained in our review is sufficient and appropriate to provide a basis for our qualified conclusion.

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.

Basis for Qualified Conclusion

ABC Company's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at ($ relevant amount) on the statement of financial position as at December 31, 20X1, and ABC's share of XYZ's net income of ($ relevant amount) is included in ABC's income for the year then ended. We were unable to obtain sufficient appropriate evidence about the carrying amount of ABC's investment in XYZ as at December 31, 20X1 and ABC's share of XYZ's net income for the year because we were denied access to the relevant financial information of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Conclusion

Except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements do not present fairly, in all material respects, (or *do not give a true and fair view of)* the financial position of ABC Company as at December 31, 20X1, and (*of*) its financial performance and cash flows for the year then ended in accordance with [name of applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards].

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

<u>Illustration 4:</u>

Circumstances include the following:

- **Review of consolidated general purpose financial statements prepared by management of the parent in accordance with International Financial Reporting Standards.**
- **The terms of the review engagement reflect the description of management's responsibility for the financial statements in paragraph 30(b) of this ISRE.**
- **The financial statements are materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the financial statements. The effects of the misstatement on the financial statements have not been determined because it was not practicable to do so.**
- **The practitioner does not have other reporting responsibilities under local law in addition to the review of the consolidated financial statements.**

INDEPENDENT PRACTITIONER'S REVIEW REPORT

[Appropriate Addressee]

Report on the Consolidated Financial Statements[25]

We have reviewed the accompanying consolidated financial statements of ABC Company that comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's[26] *Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards,[27] and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner's Responsibility

Our responsibility is to express a conclusion on these consolidated financial statements based on our review. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Historical Financial Statements*. ISRE 2400 requires us to conclude whether anything has come to our attention that causes us to believe that the

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25 The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

26 Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

27 Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such …"

consolidated financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of consolidated financial statements in accordance with ISRE 2400 consists primarily of making inquiries of management and others within the entity involved in financial and accounting matters, applying analytical procedures, and evaluating the sufficiency and appropriateness of evidence obtained. A review also requires performance of additional procedures when the practitioner becomes aware of matters that cause the practitioner to believe the financial statements as a whole may be materially misstated.

We believe that the evidence we have obtained in our review is sufficient and appropriate to provide a basis for our adverse conclusion.

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 consolidated financial statements.

Basis for Adverse Conclusion

As explained in Note X, the company has not consolidated the financial statements of subsidiary XYZ Company it acquired during 20X1 because it has not yet been able to ascertain the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis. Under International Financial Reporting Standards, the subsidiary should have been consolidated because it is controlled by the company. Had XYZ been consolidated, many elements in the accompanying financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

Adverse Conclusion

Due to the significance of the matter discussed in the Basis for Adverse Conclusion paragraph, we conclude that the consolidated financial statements do not present fairly (or *do not give a true and fair view of*) the financial position of ABC Company and its subsidiaries as at December 31, 20X1, and (*of*) their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the practitioner's report will vary depending on the nature of the practitioner's other reporting responsibilities.]

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

Illustration 5:

Circumstances include the following:

- **Review of a complete set of general purpose financial statements prepared by management of the entity in accordance with International Financial Reporting Standards.**
- **The terms of the review engagement reflect the description of management's responsibility for the financial statements in paragraph 30(b) of this ISRE.**
- **The practitioner was unable to obtain sufficient appropriate evidence about multiple elements of the financial statements. That is, the practitioner was unable to obtain evidence about the entity's physical inventory and accounts receivable. The effect of this inability to obtain sufficient appropriate evidence is that the practitioner is unable to complete the review.**

INDEPENDENT PRACTITIONER'S REVIEW REPORT

[Appropriate Addressee]

We were engaged to review the accompanying financial statements of ABC Company that comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's[28] *Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards,[29] and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. Because of the matter(s) described in the Basis for Disclaimer of Conclusion paragraph, however, we are not able to obtain sufficient appropriate evidence as a basis for expressing a conclusion on the financial statements.

Basis for Disclaimer of Conclusion

Management did not conduct a count of physical inventory on hand at the end of the year. We were unable to satisfy ourselves concerning the inventory quantities held at December 31, 20X1, which are stated in the statement of financial position at December 31, 20X1.

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28 Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

29 Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such …"

In addition, the introduction of a new computerized accounts receivable system in September 20X1 resulted in numerous errors in accounts receivable and inventory. As of the date of our report, management was still in the process of rectifying the system deficiencies and correcting the errors. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statement of comprehensive income, statement of changes in equity and statement of cash flows.

Disclaimer of Conclusion

Because of the significance of the matters described in the Basis for Disclaimer of Conclusion paragraph, we were unable to obtain sufficient appropriate evidence as a basis for expression of a conclusion on the accompanying financial statements. Accordingly, we do not express a conclusion on these financial statements.

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

Reports on Special Purpose Financial Statements

Illustration 6:

Circumstances include the following:

- **The financial statements have been prepared by management of the entity in accordance with the financial reporting provisions of a contract (that is, a special purpose framework), to comply with the provisions of the contract. Management does not have a choice of financial reporting frameworks.**
- **The applicable financial reporting framework is a compliance framework.**
- **The terms of the review engagement reflect the description of management's responsibility for the financial statements in paragraph 30(b) of this ISRE.**
- **Distribution or use of the practitioner's report is restricted.**

INDEPENDENT PRACTITIONER'S REVIEW REPORT

[Appropriate Addressee]

We have reviewed the accompanying financial statements of ABC Company that comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management of ABC Company based on the financial reporting provisions of Section Z of the contract dated January 1, 20X1 between ABC Company and DEF Company ("the contract").

Management's[30] *Responsibility for the Financial Statements*

Management is responsible for the preparation of these financial statements in accordance with the financial reporting provisions of Section Z of the contract, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Historical Financial Statements*. ISRE 2400 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

[30] Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

A review of financial statements in accordance with ISRE 2400 consists primarily of making inquiries of management and others within the entity involved in financial and accounting matters, applying analytical procedures, and evaluating the sufficiency and appropriateness of evidence obtained. A review also requires performance of additional procedures when the practitioner becomes aware of matters that cause the practitioner to believe the financial statements as a whole may be materially misstated.

We believe that the evidence we have obtained in our review is sufficient and appropriate to provide a basis for our conclusion.

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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not prepared, in all material respects, in accordance with the financial reporting provisions of Section Z of the contract.

Basis of Accounting, and Restriction on Distribution and Use

Without modifying our conclusion, we draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist ABC Company to comply with the financial reporting provisions of the contract referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for ABC Company and DEF Company and should not be distributed to or used by parties other than ABC Company or DEF Company.

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

Illustration 7:

Circumstances include the following:

- **Review of a statement of cash receipts and disbursements (that is, a single financial statement).**
- **The financial statement has been prepared by management of the entity in accordance with the cash receipts and disbursements basis of accounting to respond to a request for cash flow information received from a creditor. The basis of accounting applied to prepare the financial statement has been agreed between the entity and the creditor.**
- **The terms of the review engagement reflect the description of management's responsibility for the financial statements in paragraph 30(b) of this ISRE.**
- **Distribution or use of the practitioner's report is not restricted.**

INDEPENDENT PRACTITIONER'S REVIEW REPORT

[Appropriate Addressee]

We have reviewed the accompanying statement of cash receipts and disbursements of ABC Company for the year ended December 31, 20X1, and a summary of significant accounting policies and other explanatory information (together "the financial statement"). The financial statement has been prepared by management of ABC Company using the cash receipts and disbursements basis of accounting described in Note X.

Management's[31] *Responsibility for the Financial Statement*

Management is responsible for the preparation of this financial statement in accordance with the cash receipts and disbursements basis of accounting described in Note X, and for such internal control as management determines is necessary to enable the preparation of the financial statement free from material misstatement, whether due to fraud or error.

Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statement based on our review. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Historical Financial Statements*. ISRE 2400 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statement is not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE 2400 consists primarily of making inquiries of management and others within the entity involved in financial and accounting matters, applying analytical procedures, and evaluating the sufficiency and appropriateness of evidence obtained. A review also requires performance of additional procedures when the practitioner

[31] Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

becomes aware of matters that cause the practitioner to believe the financial statements may be materially misstated.

We believe that the evidence we have obtained in our review is sufficient and appropriate to provide a basis for our conclusion.

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 this financial statement.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial statement is not presented, in all material respects, in accordance with the cash receipts and disbursements basis of accounting described in Note X.

Basis of Accounting

Without modifying our conclusion, we draw attention to Note X to the financial statement, which describes the basis of accounting. The financial statement is prepared to provide information to XYZ Creditor. As a result, the financial statement may not be suitable for another purpose.

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

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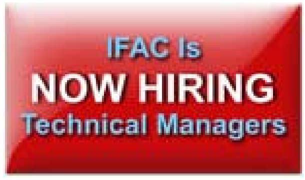
IAASB Addresses Assurance (Other than Audit) on Financial Statements; Exposes Enhanced Review Engagement Standard

(New York/January 13, 2011) The International Auditing and Assurance Standards Board (IAASB) today released for public exposure proposed International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Historical Financial Statements*. This revised standard is the second IAASB proposal in recent months that addresses the growing international need for robust standards for services that can be used by entities that are either not required or do not elect to be audited.

"The financial statement review engagement is an important service in meeting evolving regulatory, market, and business reporting needs, in particular in the small- and medium-sized entity (SME) sector," noted Prof. Arnold Schilder, IAASB Chairman. "The proposed standard seeks to establish clear and robust



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requirements governing the practitioner's performance of a review engagement, and thus serves to fulfill its purpose of enhancing users' degree of confidence in an entity's financial statements."

A review of financial statements in accordance with the proposed ISRE consists primarily of making inquiries of management and others within the entity involved in financial and accounting matters, applying analytical procedures, and evaluating the sufficiency and appropriateness of evidence obtained. The practitioner reports on whether anything has come to the practitioner's attention that causes him/her to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. The procedures performed in a review are substantially less than those performed in an audit, and the practitioner does not express an audit opinion.

"A financial statement review is, and should be seen as, a distinct service from a financial statement audit. It is essential that users are able to clearly distinguish between the two," said IAASB Technical Director James Gunn. "An important aspect of the proposed standard therefore is the form and content of the practitioner's report. The IAASB seeks comments on whether the proposed report communicates clearly to users the work performed and the limited assurance obtained in a review engagement."

The proposed ISRE will help practitioners around the world who perform review engagements converge towards use of a globally accepted benchmark, and facilitate development of practice in jurisdictions that currently do not have national standards in this area.

How to Comment
The IAASB invites all stakeholders to comment on its proposals. To access the exposure draft or submit a comment, visit the IAASB's website at www.iaasb.org/ExposureDrafts.php.

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Comments on the exposure draft are requested by **May 20, 2011**.

About the IAASB
The IAASB (http://www.iaasb.org/) develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance. The structures and processes that support the operations of the IAASB are facilitated by IFAC.

About IFAC
IFAC (http://www.ifac.org/) is the global organization for the accountancy profession, dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. It is comprised of 164 members and associates in 125 countries and jurisdictions, representing approximately 2.5 million accountants in public practice, education, government service, industry, and commerce.

Notes to Editor:
In October 2010, the IAASB released proposed International Standard on Related Services (ISRS) 4410, *Compilation Engagements*.

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