

INTERNATIONAL STANDARD ON REVIEW ENGAGEMENTS 2400

(Previously ISA 910)

ENGAGEMENTS TO REVIEW FINANCIAL STATEMENTS

(This Standard is effective)

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International Standard on Review Engagements (ISRE) 2400, "Engagements to Review Financial Statements" should be read in the context of the "Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services," which sets out the application and authority of ISREs.

Introduction

1. The purpose of this International Standard on Review Engagements (ISRE) is to establish standards and provide guidance on the auditor's¹ professional responsibilities when an engagement to review financial statements is undertaken and on the form and content of the report that the auditor issues in connection with such a review.
2. This ISRE is directed towards the review of financial statements. However, it is to be applied to the extent practicable to engagements to review financial or other information. This ISRE is to be read in conjunction with ISA 120, "Framework of International Standards on Auditing." Guidance in other ISAs may be useful to the auditor in applying this ISRE.

Objective of a Review Engagement

3. **The objective of a review of financial statements is to enable an auditor to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to the auditor's attention that causes the auditor to believe that the financial statements are not prepared, in all material respects, in accordance with an identified financial reporting framework (negative assurance).**

General Principles of a Review Engagement

4. **The auditor should comply with the *Code of Ethics for Professional Accountants* issued by the International Federation of Accountants.** Ethical principles governing the auditor's professional responsibilities are:
 - (a) Independence;
 - (b) Integrity;
 - (c) Objectivity;
 - (d) Professional competence and due care;
 - (e) Confidentiality;
 - (f) Professional behavior; and
 - (g) Technical standards.
5. **The auditor should conduct a review in accordance with this ISRE.**
6. **The auditor should plan and perform the review with an attitude of professional skepticism recognizing that circumstances may exist which cause the financial statements to be materially misstated.**
7. **For the purpose of expressing negative assurance in the review report, the auditor should obtain sufficient appropriate evidence primarily through inquiry and analytical procedures to be able to draw conclusions.**

Scope of a Review

8. The term "scope of a review" refers to the review procedures deemed necessary in the circumstances to achieve the objective of the review. **The procedures required to conduct a review of financial statements should be determined by the auditor having regard to the requirements of this ISRE, relevant professional bodies, legislation, regulation and, where appropriate, the terms of the review engagement and reporting requirements.**

¹ As explained in the Framework of International Standards on Auditing "... the term auditor is used throughout the ISAs when describing both auditing and related services which may be performed. Such reference is not intended to imply that a person performing related services need be the auditor of the entity's financial statements."

Moderate Assurance

9. A review engagement provides a moderate level of assurance that the information subject to review is free of material misstatement, this is expressed in the form of negative assurance.

Terms of Engagement

10. **The auditor and the client should agree on the terms of the engagement.** The agreed terms would be recorded in an engagement letter or other suitable form such as a contract.
11. An engagement letter will be of assistance in planning the review work. It is in the interests of both the auditor and the client that the auditor send an engagement letter documenting the key terms of the appointment. An engagement letter confirms the auditor's acceptance of the appointment and helps avoid misunderstanding regarding such matters as the objectives and scope of the engagement, the extent of the auditor's responsibilities and the form of reports to be issued.
12. Matters that would be included in the engagement letter include the following:
 - The objective of the service being performed.
 - Management's responsibility for the financial statements.
 - The scope of the review, including reference to this ISRE (or relevant national standards or practices).
 - Unrestricted access to whatever records, documentation and other information requested in connection with the review.
 - A sample of the report expected to be rendered.
 - The fact that the engagement cannot be relied upon to disclose errors, illegal acts or other irregularities, for example, fraud or defalcations that may exist.
 - A statement that an audit is not being performed and that an audit opinion will not be expressed. To emphasize this point and to avoid confusion, the auditor may also consider pointing out that a review engagement will not satisfy any statutory or third party requirements for an audit.

An example of an engagement letter for a review of financial statements appears in Appendix 1 to this ISRE.

Planning

13. **The auditor should plan the work so that an effective engagement will be performed.**
14. **In planning a review of financial statements, the auditor should obtain or update the knowledge of the business including consideration of the entity's organization, accounting systems, operating characteristics and the nature of its assets, liabilities, revenues and expenses.**
15. The auditor needs to possess an understanding of such matters and other matters relevant to the financial statements, for example, a knowledge of the entity's production and distribution methods, product lines, operating locations and related parties. The auditor requires this understanding to be able to make relevant inquiries and to design appropriate procedures, as well as to assess the responses and other information obtained.

Work Performed by Others

16. **When using work performed by another auditor or an expert, the auditor should be satisfied that such work is adequate for the purposes of the review.**

Documentation

- ~~17. The auditor should document matters which are important in providing evidence to support the review report, and evidence that the review was carried out in accordance with this ISRE.~~

Procedures and Evidence

18.17. The auditor should apply judgment in determining the specific nature, timing and extent of review procedures. The auditor will be guided by such matters as the following:

- Any knowledge acquired by carrying out audits or reviews of the financial statements for prior periods.
- The auditor's knowledge of the business including knowledge of the accounting principles and practices of the industry in which the entity operates.
- The entity's accounting systems.
- The extent to which a particular item is affected by management judgment.
- The materiality of transactions and account balances.

19.18. The auditor should apply the same materiality considerations as would be applied if an audit opinion on the financial statements were being given. Although there is a greater risk that misstatements will not be detected in a review than in an audit, the judgment as to what is material is made by reference to the information on which the auditor is reporting and the needs of those relying on that information, not to the level of assurance provided.

20.19. Procedures for the review of financial statements will ordinarily include the following:

- Obtaining an understanding of the entity's business and the industry in which it operates.
- Inquiries concerning the entity's accounting principles and practices.
- Inquiries concerning the entity's procedures for recording, classifying and summarizing transactions, accumulating information for disclosure in the financial statements and preparing financial statements.
- Inquiries concerning all material assertions in the financial statements.
- Analytical procedures designed to identify relationships and individual items that appear unusual. Such procedures would include:
 - Comparison of the financial statements with statements for prior periods.
 - Comparison of the financial statements with anticipated results and financial position.
 - Study of the relationships of the elements of the financial statements that would be expected to conform to a predictable pattern based on the entity's experience or industry norm.

In applying these procedures, the auditor would consider the types of matters that required accounting adjustments in prior periods.

- Inquiries concerning actions taken at meetings of shareholders, the board of directors, committees of the board of directors and other meetings that may affect the financial statements.
- Reading the financial statements to consider, on the basis of information coming to the auditor's attention, whether the financial statements appear to conform with the basis of accounting indicated.
- Obtaining reports from other auditors, if any and if considered necessary, who have been engaged to audit or review the financial statements of components of the entity.
- Inquiries of persons having responsibility for financial and accounting matters concerning, for example:
 - Whether all transactions have been recorded.
 - Whether the financial statements have been prepared in accordance with the basis of accounting indicated.
 - Changes in the entity's business activities and accounting principles and practices.
 - Matters as to which questions have arisen in the course of applying the foregoing procedures.
 - Obtaining written representations from management when considered appropriate.

Appendix 2 to this ISRE provides an illustrative list of procedures which are often used. The list is not exhaustive, nor is it intended that all the procedures suggested apply to every review engagement.

- 21-20. **The auditor should inquire about events subsequent to the date of the financial statements that may require adjustment of or disclosure in the financial statements.** The auditor does not have any responsibility to perform procedures to identify events occurring after the date of the review report.
- 22-21. **If the auditor has reason to believe that the information subject to review may be materially misstated, the auditor should carry out additional or more extensive procedures as are necessary to be able to express negative assurance or to confirm that a modified report is required.**

Conclusions and Reporting

- 23-22. **The review report should contain a clear written expression of negative assurance. The auditor should review and assess the conclusions drawn from the evidence obtained as the basis for the expression of negative assurance.**
- 24-23. **Based on the work performed, the auditor should assess whether any information obtained during the review indicates that the financial statements do not give a true and fair view (or are not presented fairly, in all material respects) in accordance with the identified financial reporting framework.**
- 25-24. The report on a review of financial statements describes the scope of the engagement to enable the reader to understand the nature of the work performed and make it clear that an audit was not performed and, therefore, that an audit opinion is not expressed.
- 26-25. **The report on a review of financial statements should contain the following basic elements, ordinarily in the following layout:**
- (a) **Title ;²**
 - (b) **Addressee;**
 - (c) **Opening or introductory paragraph including:**
 - (i) **Identification of the financial statements on which the review has been performed; and**
 - (ii) **A statement of the responsibility of the entity's management and the responsibility of the auditor;**
 - (d) **Scope paragraph, describing the nature of a review, including:**
 - (i) **A reference to this ISRE applicable to review engagements, or to relevant national standards or practices;**
 - (ii) **A statement that a review is limited primarily to inquiries and analytical procedures; and**
 - (iii) **A statement that an audit has not been performed, that the procedures undertaken provide less assurance than an audit and that an audit opinion is not expressed;**
 - (e) **Statement of negative assurance;**
 - (f) **Date of the report;**
 - (g) **Auditor's address; and**
 - (h) **Auditor's signature.**

Appendices 3 and 4 to this ISRE contain illustrations of review reports.

- 27-26. **The review report should:**

² It may be appropriate to use the term "Independent" in the title to distinguish the auditor's report from reports that might be issued by others, such as officers of the entity, or from the reports of other auditors who may not have to abide by the same ethical requirements as an independent auditor.

- (a) State that nothing has come to the auditor's attention based on the review that causes the auditor to believe the financial statements do not give a true and fair view (or are not presented fairly, in all material respects) in accordance with the identified financial reporting framework (negative assurance); or
- (b) If matters have come to the auditor's attention, describe those matters that impair a true and fair view (or a fair presentation, in all material respects) in accordance with the identified financial reporting framework, including, unless impracticable, a quantification of the possible effect(s) on the financial statements, and either:
 - (i) Express a qualification of the negative assurance provided; or
 - (ii) When the effect of the matter is so material and pervasive to the financial statements that the auditor concludes that a qualification is not adequate to disclose the misleading or incomplete nature of the financial statements, give an adverse statement that the financial statements do not give a true and fair view (or are not presented fairly, in all material respects) in accordance with the identified financial reporting framework; or
- (c) If there has been a material scope limitation, describe the limitation and either:
 - (i) Express a qualification of the negative assurance provided regarding the possible adjustments to the financial statements that might have been determined to be necessary had the limitation not existed; or
 - (ii) When the possible effect of the limitation is so significant and pervasive that the auditor concludes that no level of assurance can be provided, not provide any assurance.

28.27. The auditor should date the review report as of the date the review is completed, which includes performing procedures relating to events occurring up to the date of the report. However, since the auditor's responsibility is to report on the financial statements as prepared and presented by management, the auditor should not date the review report earlier than the date on which the financial statements were approved by management.

[Appendices 1 – 4: no change]