

**ISRE 2400, “Engagements to Review Financial Statements”—
Issues and IAASB Task Force Proposals****I. Objective of this Paper**

1. The objective of this Paper is to consider the significant issues that should be addressed in the revision of ISRE 2400¹ for engagements to review financial statements. In connection with this the IAASB is also asked to consider whether there may be need for further consultation on any of the issues identified in order to progress development of a draft revised standard.

II. Background**MATTERS AGREED AT THE JUNE IAASB MEETING**

2. In June, the IAASB agreed that developing a revised standard on reviews of financial statements is a priority. The Board also agreed that the revised standard should:
 - Be developed in tandem with development of a revised standard on compilation of financial information.
 - Clearly distinguish reviews from other assurance and non-assurance services, including through communications between the parties to the engagement and the intended users in individual engagements.
 - Be developed as a “stand-alone” package of standards for review engagements that practitioners can use without reference to the International Standards on Auditing (ISAs).
 - Apply to financial statements prepared in accordance with general-purpose and special-purpose financial reporting frameworks as defined in the ISAs.
 - Address various technical matters that need to be clarified in relation to performance of reviews, including:
 - What “limited assurance” means in a review of financial statements; and
 - How the practitioner can incorporate a consideration of the risk of material misstatement into performance of a review, using a “risk informed” approach² that does not extend to the full risk-assessment approach that is applied in an audit.

¹ ISRE 2400, “Engagements to Review Financial Statements.”

² The Task Force has not reached consensus on an appropriate term to describe the approach a practitioner follows to gain a sufficient understanding of the risk of material misstatements necessary to plan and perform the review. The term “risk informed,” which appears in various places throughout this paper, is intended to convey the approach to risk that is explained in paragraph 17.

3. The Task Force was also asked to:
 - (a) Consider alternative “positively expressed” forms of reporting the conclusion for a review, and
 - (b) Consider from the perspective of the public interest, whether there is need to further explore how the independence requirements of the IFAC *Code of Ethics for Professional Accountants* (IFAC Code) are applied in the context of reviews of financial statements.
4. The IAASB also agreed that the Task Force should consider how communication can be used to promote practitioner and user awareness about alternatives to the audit, and about how combinations of services can be used to meet a variety of needs. This aspect of the project is not discussed in this Paper.

INPUTS TO THIS ISSUES PAPER

5. The Task Force has drawn on a wide range of sources of information and inputs to identify and develop the issues identified in this Paper. A list of primary sources used is given in Appendix 1.

III. Key Issues For Consideration

HOW A REVIEW OF FINANCIAL STATEMENTS IS PERFORMED

6. The Task Force discussed how practitioners conduct reviews today. In colloquial terms, the practitioner approaches the engagement with some understanding of the entity, the industry, and the environment. The practitioner then makes inquiries of management and performs analytical procedures. These inquiries and analytical procedures are directed by the practitioner’s “understanding.”³ That is, the practitioner focuses the inquiries and analytical procedures in those areas where the practitioner believes there is an increased risk of inconsistencies between the financial statements and the practitioner’s understanding of the entity and the environment in which it operates. The performance of inquiries and analytical procedures also informs the practitioner’s understanding. For example, management’s response to an inquiry may adjust the practitioner’s understanding of the entity or its environment.
7. In performing these procedures, if the practitioner comes across inconsistencies between the financial statements and his or her understanding of the entity and its environment, the practitioner performs additional or more extensive procedures that either (1) refine the practitioner’s expectations concerning the financial statements based on the practitioner’s understanding of the entity and its environment, so that the observed material inconsistency is resolved; or (2) bear out the practitioner’s view that the financial statements contain material misstatement(s).

³ The Task Force has not reached consensus on the term to be used in the revised standard to describe the nature and level of “understanding” that is required for a review. The term “understanding,” which appears in various places throughout this paper, is intended to signify such “understanding” as will be defined through resolution of the issues noted in Section B.

8. When the financial statements are consistent with the practitioner's understanding of the entity and its environment, the practitioner has obtained limited assurance that the financial statements have been prepared, in all material respects, in accordance with the financial reporting framework.
9. The concept of "limited assurance" is discussed further in Section D below. For the purpose of concluding the description of the review process described here, the Task Force simply notes that it does not believe the term "limited assurance" should be defined in the revised standard, but should rather be used in the sense of describing the process summarized above.

Matter for IAASB Consideration

- Q1. Does the IAASB agree with the broad description of the approach to performing a review of financial statements set out in paragraphs 6-9 above?

10. If the IAASB agrees with the broad description of the approach described in paragraphs 6-9 above, then the questions that arise are:
 - A. What is the objective of a review of financial statements?
 - B. What is the extent of understanding of the entity, and the entity's industry and its environment that the practitioner must have?
 - C. What does "risk informed" mean?
 - D. How is limited assurance defined and described in a review of financial statements?
 - E. How far does the practitioner need to go to resolve inconsistencies that the practitioner observes between the financial statements and the practitioner's understanding?
 - F. How should the practitioner's conclusion be worded?
11. Related issues to consider include:
 - G. Reviews of financial statements performed by an entity's auditor.
 - H. The premises upon which a review of financial statements is performed: application of the framework concepts relating to engagement acceptance;
 - I. Quality control standards; and
 - J. Maintaining Independence in a review engagement – provision of certain non-assurance services.
12. The remainder of this Part of the Paper (Part III) summarizes the Task Force views and recommendations regarding the matters listed in paragraphs 10 and 11. Part IV of the Paper discusses a number of further matters which the Task Force has addressed on only a preliminary basis at this stage.

A. WHAT IS THE OBJECTIVE OF A REVIEW OF FINANCIAL STATEMENTS?

13. A review of financial statements has the same objective as other assurance engagements: to enhance the degree of confidence of the intended users about the outcome of the evaluation or measurement of a subject matter (the financial statements) against criteria (applicable financial reporting framework).⁴ This purpose is achieved by the expression of a conclusion by the practitioner on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.
14. The requirements and guidance provided in the revised standard should be designed to enable a practitioner to meet this broad objective, in the context of those factors that characterize a review engagement. Those factors are: “limited assurance” and the lower level of work effort and less extensive procedures that are associated with obtaining that level of assurance.
15. Accordingly, the Task Force believes that the practitioner’s objective when performing a review of financial statements might be stated as follows:

To obtain limited assurance to enable the expression of a conclusion about whether the financial statements are consistent, in all material respects, with the practitioner’s understanding of the entity and its environment, and with the applicable financial reporting framework.

Matter for IAASB Consideration

- Q2. Does the IAASB agree with the statement of the practitioner’s objective when performing the review set out in paragraph 15?

B. WHAT IS THE EXTENT OF UNDERSTANDING OF THE ENTITY, THE INDUSTRY, AND ITS ENVIRONMENT THAT THE PRACTITIONER MUST HAVE?

16. At the June IAASB meeting, the Board agreed that review procedures should be “risk informed,” with the caveat that “risk informed” needs to be adequately described.⁵ The IAASB agreed that the practitioner must have some understanding of the entity and its industry in order to perform a review, and that the inquiries to be made and the specific analytical procedures to be performed are informed by that understanding including the insights it provides for the practitioner about areas where the risk of material misstatements is highest. However, the IAASB cautioned that the required understanding of the entity and its industry is much less than that required in an audit. Furthermore, the IAASB did not believe that a practitioner performing a review needs to perform a risk assessment to the extent that a risk assessment is required in an audit.
17. The Task Force would like to obtain the IAASB’s initial views on how the requisite understanding of the entity, its industry and its environment for the practitioner’s orientation to planning and performing the review engagement can best be described in the

⁴ International Framework for Assurance Engagements (the Framework), paragraph 7.

⁵ See footnote 2.

revised standard. The Task Force therefore asks the IAASB to consider the text in Sections B.1 and B.2.

B.1 Understanding of the Industry

18. The practitioner should possess an understanding of the industry in which the entity operates, including the accounting principles and practices generally used in the industry, sufficient to assist the practitioner with determining the specific nature, timing, and extent of review procedures to be performed.
19. The requirement that the practitioner possess a level of knowledge of the industry in which the entity operates does not prevent the practitioner from accepting a review engagement for an entity in an industry with which the practitioner has little or no previous experience. It does, however, place upon the practitioner a responsibility to obtain the requisite level of knowledge. The practitioner may do so, for example, by consulting industry publications, financial statements of other entities in the industry, textbooks and periodicals, appropriate continuing professional education, or individuals knowledgeable about the industry.

B.2 Understanding of the Entity and Its Environment

20. The practitioner should obtain an understanding of the entity sufficient to determine the specific nature, timing, and extent of review procedures. This should include the following:
 - An understanding of the entity's business.
 - An understanding of the accounting principles and practices used by the entity.
21. In obtaining an understanding of the entity's business, the practitioner should have a general understanding of the entity's organization and its governance; its operating characteristics; and the nature of its assets, liabilities, revenues, and expenses. This would ordinarily involve a general knowledge of, for example, the entity's production, distribution, and compensation methods; types of products and services; operating locations; and material transactions with related parties. The practitioner's understanding of an entity's business is ordinarily obtained through experience with the entity or its industry and inquiry of the entity's personnel.
22. The practitioner should understand the accounting principles and practices used by the entity in measuring, recognizing, recording and disclosing all significant accounts and disclosures in the financial statements. The practitioner may obtain an understanding of the accounting policies and procedures used by management through inquiry, the review of entity-prepared documents, or experience with the entity. The practitioner's understanding may include, for example, policies and procedures related to the following:
 - (a) Inventory valuation.
 - (b) Fixed asset depreciation.
 - (c) Revenue recognition, including whether the entity has a unique revenue recognition policy.
 - (d) Estimates.
 - (e) Asset impairment.

23. The practitioner's understanding also may include matters such as changes in accounting practices and principles and differences in the entity's business model as compared to normal practices within the industry.
24. In obtaining this understanding of the entity's accounting policies and practices, the practitioner should be alert to unusual accounting policies and procedures that come to the practitioner's attention as a result of his or her knowledge of the industry.
25. While a review does not contemplate the practitioner obtaining an understanding of management's internal control, the practitioner may nevertheless become aware of controls that the practitioner believes may be appropriately designed to prevent or detect and correct misstatements in the financial statements, if those controls were operating effectively. If the practitioner has evidence that a control is operating effectively, the practitioner may use that evidence in tailoring the nature, timing, and extent of review procedures.

Matters for IAASB Consideration

- Q3. Does the IAASB consider that Sections B.1 and B.2 above contain an appropriate description of the requisite understanding the practitioner needs to have or obtain to properly plan and perform a review of financial statements? Are there any matters in the description that the IAASB considers to be too extensive for a review? Does the IAASB consider there are other factors or matters which the practitioner needs to also have sufficient understanding of to be able to perform a review effectively?
- Q4. Does the IAASB have views on the use of the term "understanding" to describe this body of knowledge the practitioner is expected to have or obtain?

C. WHAT DOES "RISK INFORMED" MEAN?

26. The practitioner needs to incorporate an awareness or sensitivity to the risk of material misstatement into the performance of the review procedures, in order to be able to:
 - (a) Plan and design the procedures required to obtain the required limited assurance; and
 - (b) Obtain sufficient appropriate evidence to be able to conclude on the financial statements.
27. The Task Force believes that the revised standard should explicitly require a practitioner to undertake the procedures and other work required for a review on the basis of having taken adequate steps to become informed about, or develop an awareness of, the key areas of risk associated with an entity's financial statements. Those procedures should be focused on areas where the practitioner believes there is an increased risk of inconsistencies between the financial statements and the practitioner's understanding of the entity and the environment in which it operates. Application guidance should explain how practitioners should meet this requirement applying the "risk informed" approach.

Matter for IAASB Consideration

- Q5. Does the IAASB agree that the practitioner, based on his or her "understanding" as

described in Sections B.1 and B.2 above, should focus inquiries and analytical procedures in those areas where the practitioner believes there is increased risk of inconsistency between the financial statements and the practitioner's understanding of the entity, and the entity's industry and its environment?

D. HOW IS LIMITED ASSURANCE DEFINED AND DESCRIBED IN A REVIEW OF FINANCIAL STATEMENTS?

28. The term “reasonable assurance” is defined for an audit; however, the terms “limited assurance” and “moderate assurance” are not defined for the review.
29. Responses obtained to the Staff Consultation Paper issued by a subgroup of the IAASB National Standard Setters (“the Consultation Paper”)⁶ indicated a significant preference for use of the term “limited assurance” to indicate the required level of assurance for a review of financial statements. This is because “moderate assurance” implies a degree of precision in the level of assurance that is not actually obtained in a review. The term “limited assurance,” though it also does not indicate any specific level of assurance, is seen as being a more “true” descriptor of the level of assurance actually obtained.

Defining and Describing “Limited Assurance” in the Revised Standard

30. The revised standard could address the question of what limited assurance means in two possible ways:
- (a) By establishing requirements, the performance of which will result in the practitioner obtaining limited assurance; or
 - (b) By defining “limited assurance” in a way that effectively establishes the base level of procedures and work effort required (as far as possible).
31. Another possibility is to follow the approach used in the ISAs, where a combination of the approaches described in paragraph 30(a) and (b) is used.
32. The Task Force believes the approach described in paragraph 30(b) will result in greater variability in practice, unless the concept of “limited assurance” is clearly articulated in a form communicable to practitioners, users and other stakeholders. The Task Force believes that the approach described in paragraph 30(a) is more practicable. It has the advantages of firstly allowing appropriate scope for exercise of professional judgment, and secondly ensuring that all reviews will meet some minimum requirements by which the level of assurance obtained is established in practice in order to be meaningful.
33. If the Task Force's view is accepted, then the important issue will be specification of the minimum procedures that are required in the revised standard. The term “limited assurance” would then not be defined as being any specified level of assurance, but would

⁶ IAASB National Standard Setters Staff Consultation Paper, “Matters to Consider in a Revision of International Standard on Review Engagements 2400, *Engagements to Review Financial Statements*” (September 2008).

rather represent the outcome of performance of minimum required procedures and following the required approach described in the revised standard.

Matters for IAASB Consideration

- Q6. Does the IAASB agree that the revised standard should require a practitioner performing a review of financial statements to obtain “limited assurance” (as opposed to “moderate assurance”) as the basis for expressing the conclusion on the financial statements?
- Q7. Does the IAASB agree with the Task Force’s view in paragraph 32, to follow the approach of establishing the minimum procedures and work effort that a practitioner should undertake to perform a review and to establish the limited assurance that provides the basis for expression of the review conclusion?
- Q8. Alternatively, does the IAASB believe that “limited assurance” should be defined in the revised standard?

- E. HOW FAR DOES THE PRACTITIONER NEED TO GO TO RESOLVE INCONSISTENCIES THAT THE PRACTITIONER OBSERVES BETWEEN THE FINANCIAL STATEMENTS AND THE PRACTITIONER’S UNDERSTANDING?
- 34. The Task Force believes the practitioner should apply professional judgment in determining the nature, timing and extent of additional procedures that he or she performs to resolve observed material inconsistencies between the financial statements as presented and the practitioner’s expectations about the financial statements based on the practitioner’s understanding of the entity, its industry and its business.
- 35. The practitioner performs additional or more extensive procedures that either (1) refine the practitioner’s expectations concerning the financial statements based on the practitioner’s understanding of the entity and its environment, so that the observed material inconsistency is resolved; or (2) bear out the practitioner’s view that the financial statements contain material misstatement(s).
- 36. The practitioner’s overall objective remains expression of a conclusion about the financial statements taken as a whole, on the basis of having obtained limited assurance about the financial statements. The additional procedures and work effort that the practitioner devotes to resolving observed material inconsistencies in the financial statements do not change the overall objective. The additional procedures and effort are undertaken to resolve questions of whether or not material misstatements exist in relation to those particular areas or items in the financial statements.
- 37. The Task Force believes that, when all the material inconsistencies are resolved, the practitioner has obtained limited assurance that the financial statements are in accordance with the applicable financial reporting framework in all material respects.
- 38. The Task Force has not yet arrived at consensus as to how far the practitioner needs to go to bear out the likely existence of a material misstatement in the financial statements. However, one strong view put forward is that in the case of a material inconsistency the practitioner must obtain reasonable assurance that the financial statements contain a material misstatement. The argument is that, until additional procedures have resolved any

material inconsistencies between the financial statements and the practitioner's understanding, the practitioner must continue to perform additional procedures. At some point, assuming no scope limitations intervene, the practitioner will have obtained reasonable assurance about whether the financial statements are materially inconsistent with his or her understanding. Consequently the financial statements would either be amended by management or the practitioner would need to issue a modified review conclusion for a material misstatement.

39. The Task Force recognizes that this aspect of performing reviews is one that is most problematic in practice. It would like obtain the IAASB's preliminary view on whether the approach described in paragraphs 34-37 above is feasible for purposes of describing the approach to be taken by practitioners in the revised standard.

Matters for IAASB Consideration

- Q9. What is the IAASB's general view as to the approach to be taken in the revised standard on the question of how far the practitioner needs to go to bear out the likely existence of a material misstatement in the financial statements?
- (a) Does the IAASB believe the description of the approach the practitioner should follow set out in paragraphs 34-37 provide a reasonable basis to be able to form a conclusion about the financial statements?
- (b) What are the IAASB's views on the specific proposal that is set out in paragraph 38?

F. HOW SHOULD THE PRACTITIONER'S CONCLUSION BE WORDED?

40. Under the current convention applied for a review, use of the negative form of expression of the review conclusion is how the practitioner signals to users the limitations associated with the conclusion expressed in a review report.⁷ The advantage of this form of conclusion is that it is clearly distinguishable from the audit opinion.
41. However, there is both anecdotal and some research evidence which shows that the negative form of expression of the conclusion is not well understood by some users. Arguably, in some cases that lack of understanding may have the result of undermining achievement of the objective of the review, that is, to enhance intended users' confidence concerning the financial statements. On the other hand, some studies have reported that some users appear to associate a higher level of assurance with this form of report than the audit opinion, creating an expectations gap.
42. At the June IAASB meeting, the Board agreed that the Task Force should explore possible use of a positive form of expression of the review conclusion which would also signal more effectively and clearly the limitations of the review engagement, and consequently the limitations of the review conclusion.

⁷ The wording in the extant review report is: "Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements do not give a true and fair view (or are not presented fairly, in all material respects) in accordance with [the applicable financial reporting framework]." (ISRE 2400, Appendix 3).

43. The Task Force considers that the following positively expressed wording of the review conclusion could be used in a review report:

Based on our work performed for the review of the financial statements we believe that the financial statements are, in all material respects, consistent with our knowledge and understanding of the entity and its environment, and with the applicable financial reporting framework.

44. Such a positively worded conclusion would be preceded by a scope paragraph that would describe the basis for the conclusion as being limited assurance, together with a description of what that means in relation to the work carried out for the engagement.

Matters for IAASB Consideration

- Q10. Does the IAASB consider that the positively-expressed review conclusion set out in paragraph 43 above achieves the aim of communicating the review conclusion to users in clear terms that also signal the limitations of the review to users (i.e., when read together with a preceding scope paragraph contained in the report)?
- Q11. Does the IAASB consider that the potential cost associated with the risk of using a positively-expressed review conclusion would likely outweigh the potential benefit of using that form of expression of the review conclusion? Or is it more likely that benefits would outweigh the costs?
- Q12. Does the IAASB consider that there are strategies that can be used to effectively mitigate the risks, for example inclusion of a description of the limited nature of the work performed in the report, (i.e., as part of the “basis for conclusion” in the scope paragraph of the report)?

G. REVIEWS OF FINANCIAL STATEMENTS PERFORMED BY AN ENTITY’S AUDITOR

45. ISRE 2410⁸ establishes the standards for a review engagement undertaken by the auditor of an entity. It takes the position that reviews performed by the auditor of an entity are different from other reviews with regard to the practitioner’s level of prior knowledge derived from carrying out the audit.
46. At the June IAASB meeting, some members expressed the view that reviews performed under ISRE 2410 are inherently different from the review performed under ISRE 2400, and that the differences could be made more explicit. Notwithstanding the inherent differences between these two types of engagements, they are alike in certain respects such that the revision of ISRE 2400 may require some conforming amendments to be made to ISRE 2410.
47. The Task Force intends to further consider the areas of commonality and difference regarding reviews performed by the auditor of an entity versus reviews performed by a practitioner who is not also the auditor of the entity.

⁸ ISRE 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.”

48. However as an initial recommendation, the Task Force believes there is sufficient basis to recommend that the differences between the two types of engagement should be signaled more clearly for the benefit of practitioners, users and other stakeholders. This could be done in any of a number of ways, for example:

- (a) By re-naming one of the engagements to something other than a review;
- (b) By re-classifying ISRE 2410 as an engagement that falls within the ISAs in the IAASB's suite of standards.

The Task Force believes that option (b) is the most appropriate option, because the ISRE 2410 review is an engagement performed by an auditor for which the auditor must also apply their audit-based knowledge derived from the audit of the entity's financial statements.

49. There is an existing precedent for inclusion of engagements that arise in the context of the engagement to audit an entity's financial statements in the ISA series, in ISA 810.⁹ The Task Force seeks the IAASB's views on whether the current ISRE 2410 might be reclassified as an engagement that is similarly addressed within the ISA series of standards.

Matters for IAASB Consideration

- Q13. Does the IAASB agree that the circumstances of reviews performed under ISRE 2400 and those performed under ISRE 2410 are clearly different, so that the engagements ought to be more clearly and visibly distinguished from each other?
- Q14. If yes, does the IAASB believe that re-classification of ISRE 2410 as an ISA would be an effective way to do that?

H. THE PREMISES UPON WHICH A REVIEW OF FINANCIAL STATEMENTS IS PERFORMED: APPLICATION OF THE FRAMEWORK CONCEPTS RELATING TO ENGAGEMENT ACCEPTANCE

50. Applying the concepts in paragraph 17 of the Framework to a review engagement, a practitioner who is requested to perform a review should only accept it where the practitioner's preliminary knowledge of the engagement circumstances indicates that, among other things:
- (a) Relevant ethical requirements such as independence and professional competence will be satisfied (as reflected in ISQC 1.28¹⁰); and
 - (b) In relation to the engagement to be performed:
 - (i) The criteria to be used are suitable and available to the intended users; and
 - (ii) The practitioner has access to sufficient appropriate evidence to support the practitioner's conclusion; and

⁹ ISA 810, "Engagements to Report on Summary Financial Statements."

¹⁰ ISQC 1, "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements."

- (iii) The practitioner is satisfied that there is a rational purpose for the engagement. In the event of a significant limitation on the scope of the practitioner's work, for example where circumstances exist that will prevent, or can be expected to prevent, the practitioner from obtaining evidence required to reduce assurance engagement risk to the appropriate level, it may be unlikely that there is a rational purpose for the engagement.
51. In relation to paragraph 50(b)(i), the practitioner needs to assess whether the financial reporting framework is acceptable in the circumstances of the engagement with particular reference to the purpose(s) of the engagement. For example, the financial statements may be prepared in accordance with a general purpose reporting framework, or a special purpose reporting framework, or the framework may be the applicable law, regulation or contract.
52. Review engagements are often undertaken for financial statements prepared for special-purpose financial reporting. It is therefore important that the practitioner obtain an understanding of the purpose for which the financial statements are prepared and the intended users in order to cater to user needs in different reporting environments.
53. In relation to paragraph 50(b)(ii), a key question in a review of financial statements is whether, for a prospective engagement, it is likely that sufficient appropriate evidence exists and is accessible to the practitioner to be able to reduce the engagement risk to the level considered acceptable for the review (implicitly, sufficient evidence to obtain the limited assurance required to be able to conclude on the financial statements).
54. Unless a review is required by law or regulation, a practitioner cannot undertake a review when, at the outset, the practitioner believes that it is unlikely that the practitioner will be able to obtain sufficient appropriate evidence to reduce the engagement risk to the level needed to be able to express a review conclusion.
55. For example, where the entity does not have a reliable accounting system from which to prepare financial statements there is reason to question whether applying limited procedures can deliver the level of assurance required to support the review conclusion. The limited procedures and work effort of a review may well be insufficient to provide a reasonable basis for an assurance conclusion.
56. Similarly, if the practitioner assesses the entity's management or those charged with governance as lacking integrity there may be little prospect that limited procedures based on management inquiries, taken with the other procedures performed, would yield sufficient appropriate evidence to provide a reasonable basis to form a limited assurance conclusion.
57. In summary, the Task Force believes that, in the context of a request to review financial statements that are intended for general-purpose financial reporting,¹¹ unless a review is required by law or regulation, a practitioner should not agree to undertake an engagement if

¹¹ The Task Force views the position as being different for engagements to review financial statements prepared in special-purpose financial reporting contexts where use and distribution of the financial statements can be restricted to specified users.

it is clear at the outset that a significant scope limitation exists, and the limitation will result in disclaiming a conclusion on the financial statements.

58. Also, the Task Force considers that practitioners need to consider whether an audit of the financial statements may be the better option taking all factors into account (particularly the needs of intended users), for example, if the practitioner expects that complexities inherent to the engagement mean that the limited assurance basis of the review engagement would not be in the best interests of intended users of the financial statements. The Task Force is exploring this area in its further discussions and has not yet reached a conclusion, but would welcome the IAASB's inputs and preliminary thinking in this area.
59. ISRE 2400 does not address pre-conditions set out in paragraph 17 of the Framework for accepting an engagement to review financial statements. This poses a risk to practitioners and users if practitioners do not follow the guidance set out in the Framework. In addition, there is a risk that reviews of financial statements may be performed without adequate understanding of the needs of the intended user. (In this situation, a possible unintended consequence of the negatively-expressed review conclusion is that it may allow practitioners scope to provide an assurance report on financial statements for which there may not be a sufficient basis for provision of assurance.)
60. The Task Force has also reviewed the provisions of ISA 210¹² in the context of reviews of financial statements and believes there may be requirements and guidance in ISA 210 that, adapted as necessary, are relevant to accepting an engagement to review financial statements.

Matters for IAASB Consideration

- Q15. Does the IAASB agree with the clarification of the engagement acceptance concepts set out in the Framework as explained above in the revised standard?
- Q16. Does the IAASB agree that the revised standard should clarify the pre-conditions for performing a review of financial statements as explained on a preliminary basis above?

I. QUALITY CONTROL STANDARDS

61. ISQC 1 addresses a firm's responsibilities for its system of quality control for audits and reviews of financial statements, and other assurance and related services engagements, and is to be read in conjunction with Parts A and B of the IFAC Code (paragraph 1).
62. ISQC 1 notes that other pronouncements set out additional standards and guidance on the responsibilities of firm personnel regarding quality control procedures for specific types of engagements (for example, ISA 220¹³).
63. ISRE 2400 does not address quality control for performance of review engagements in a comprehensive manner, although it does touch on some quality control issues (for example,

¹² ISA 210, "Agreeing the Terms of Audit Engagements."

¹³ ISA 220, "Quality Control for an Audit of Financial Statements."

documentation of the engagement performance).

64. A key consideration for the performance of a review of financial statements prepared in accordance with an applicable financial reporting framework is that the practitioner should have the requisite competence to review financial statements prepared applying different financial reporting frameworks, in the sense of being knowledgeable of the frameworks and how they are applied in different settings. For example: International Financial Reporting Standards; International Public Sector Accounting Standards; or financial reporting requirements contained in compliance frameworks specified under applicable laws and regulations.
65. Another key consideration is that the quality control requirements established within the revised standard need to be sufficient and appropriate to ensure practitioners will deliver a consistent level of quality across review engagements, without imposing costs that do not contribute to engagement quality.
66. The Task Force believes that ISA 220 contains an appropriate basis for quality control in review engagements. Accordingly the Task Force intends to “model” the quality control requirements for review engagements on those of ISA 220, as appropriate for the review engagement context.

Matter for IAASB Consideration

- Q17. Does the IAASB agree that the quality control requirements for reviews of financial statements can be modeled off those contained in ISA 220, amended as appropriate?

J. MAINTAINING INDEPENDENCE IN A REVIEW ENGAGEMENT – PROVISION OF CERTAIN NON-ASSURANCE SERVICES

Dialogue with the International Ethics Standards Board for Accountants (IESBA)

67. The project proposal approved by the Board in March 2009 acknowledged the relevance of the IFAC Code for this project, and noted the need to co-ordinate with the IESBA to the extent that any proposals that this project may consider raise independence issues.
68. Independence issues were canvassed on a preliminary basis in the Issues Paper presented to the Board at its meeting in June 2009.
69. Subsequently, in July the Task Force’s membership was expanded to include an IESBA member (Isabelle Sapet). The Task Force’s meeting in July included a portion of agenda time to examine independence issues, and included a presentation on the IFAC Code provided by a technical adviser for an IESBA member (Sylvie Soulier).

Analysis of the Provisions of the IFAC Code

70. The IFAC Code requires practitioners to be independent from assurance clients (paragraph 280.2). Section 290 of the IFAC Code provides specific guidance on independence for

professional accountants in public practice when performing audits or reviews of financial statements (a complete set of financial statements, or a single financial statement).¹⁴

71. An issue that has received much attention is whether, in the small- and medium-sized entity (SME) sector in particular, the public interest is best served by:
 - (a) Strict adherence to the independence principle and related guidance concerning provision of accounting services to these assurance clients (which aim to address the “self review” threat that arises when a practitioner providing an assurance service has certain types of involvement in the preparation of the client’s accounting records and/or financial statements), or
 - (b) An approach that permits provision of such services under certain conditions so that threats to the practitioner’s independence regarding performance of the assurance engagement are adequately disclosed, but at the same time permitting SME assurance clients to access the professional accountant’s professional expertise regarding preparation of financial statements.
72. The Task Force has considered the independence question from the perspective of the objective of this project, as stated in the project proposal,¹⁵ in particular with reference to provision of services linked to preparation of accounting records and financial statements of an assurance client.
73. Specifically the Task Force has considered how the current provisions of Sections 290.162-290.171 of the IFAC Code affect achievement of the overall project objective.
74. The consensus view of the Task Force is that, in the context of providing assurance on financial statements, the current provisions of the IFAC Code are appropriate, that is the application of the independence principle to audits and reviews of financial statements should not be different, for example because the reviews are limited assurance engagements and not reasonable assurance engagements.
75. The consensus view of the Task Force is also that the provisions of Section 290.171 of the IFAC Code concerning the practitioner’s involvement in preparation of accounting records and financial statements of non-public interest entities provide adequate latitude for practitioners to respond appropriately to meet their clients’ needs for assistance without impairing their independence in relation to the review of the financial statements.
76. However, the AICPA correspondent member on the Task Force strongly believes that practitioners should be permitted to perform a review engagement when independence is impaired because the performance of certain services is intended to assist the entity in preparing high-quality, reliable financial statements. Smaller entities that engage practitioners to perform review engagements often require assistance in order to prepare quality financial statements beyond the scope of what is envisaged in the provisions of Section 290.171. It is the position of the AICPA correspondent member that, as long as the

¹⁴ Relevant extracts from the IFAC Code are set out in Appendix 2 for reference purposes.

¹⁵ The project’s objective as stated in the project proposal (paragraph 34) is “... to revise ISRE 2400 and ISRS 4410 so that they provide standards for services that provide acceptable alternatives to the audit.”

report contains clear disclosure as to the services performed, and a statement that the performance of such services impaired the practitioner's independence, the practitioner should be able to express a review-level conclusion on the financial statements.

Matters for IAASB Consideration

- Q18. Does the IAASB agree with the Task Force's consensus view that, in the context of the objective of this project, the current provisions of the IFAC Code regarding the practitioner's involvement with an assurance client's accounting records and financial statements are appropriate?
- Q19. Does the IAASB believe the minority view expressed in paragraph 76 should be further explored, including through dialogue with the IESBA as appropriate?
- Q20. Irrespective of the IAASB's conclusion regarding Q19, does the IAASB believe further dialogue with the IESBA may be needed to understand the basis for the current provisions of the IFAC Code pertaining to:
- (a) Non-public interest entities for which practitioners undertake reviews?
 - (b) Review engagements for which the report is restricted in use or distribution?
 - (c) Any other issues or questions pertaining to application of the principle of Independence in relation to review engagements?

IV Further Issues for Consideration

77. Further issues raised for consideration, and which the Task Force has addressed on only a preliminary basis at this stage, are discussed in this Part of the Paper.

COMMUNICATIONS WITH MANAGEMENT/THOSE CHARGED WITH GOVERNANCE

78. ISA 260¹⁶ sets out requirements on an auditor's communications with management and those charged with governance.
79. The revised standard on reviews of financial statements will also need application guidance in the area of communications with management/those charged with governance. In SMEs, management and those charged with governance will often be the same party/parties.
80. Areas to be addressed in the revised standard are:
- The communication process;
 - Compliance with ethical requirements, including independence requirements;
 - Clarification of the respective responsibilities of the practitioner and management/those charged with governance;
 - Planned scope and timing of the review; and
 - Significant findings from the review.

¹⁶ ISA 260, "Communication with Those Charged with Governance."

Matter for IAASB Consideration

Q21. Does the IAASB agree that the requirements and guidance for communications with management/those charged with governance in a review of financial statements can be modeled off those contained in ISA 260, adjusted as appropriate for the context of a review?

RESPONSIBILITY RELATING TO FRAUD; CONSIDERATION OF LAWS AND REGULATIONS

81. ISRE 2400 is silent regarding the auditor's responsibility with respect to fraud, or laws and regulations.
82. The limitations of a review engagement mean there is a higher risk of undetected material misstatements in financial statements that are reviewed than if they were audited, including material misstatements that are due to undetected fraud or non-compliance with material misstatements.
83. The Task Force believes that the practitioner should be alert to the risk of such misstatements occurring as part of the work effort the practitioner applies to obtain an understanding the entity, its business and its environment, and as part of the iterative process that characterizes the performance of procedures and evaluation of the results obtained from their performance.
84. In essence this is the same approach as described in Sections C to E of Part III of this Paper regarding use of a "risk informed" approach to perform the review, including addressing the risk of material misstatements occurring in the financial statements due to fraud or non-compliance with laws and regulations. If the practitioner observes material inconsistencies between the financial statements as presented and the practitioner's knowledge and understanding of the entity, its business and its operations which may arise from fraud or from non-compliance with laws and regulations, then the practitioner would iteratively apply additional or more extensive procedures until satisfied, based on the results of those procedures, as to whether or not the financial statements are likely to be materially misstated.
85. The Task Force's discussions in this area are incomplete regarding implications for the review report. The limited assurance nature of the engagement embodies a higher risk than in an audit of undetected material misstatement in the financial statements due to fraud or non-compliance with laws or regulations. In the absence of any indication that such material misstatements may exist arising from performance of inquiry and analytical review procedures, the practitioner may not perform additional procedures aimed at discovery of such misstatements. On this basis, there is a case that the level of assurance obtained in a review in relation to material misstatements due to fraud or noncompliance with laws and regulations is not meaningful. The question arises whether the report should contain a clear statement for the benefit of users of the report, for example, that a review of financial statements is not designed to detect material misstatements arising from fraud or non-compliance with laws or regulations and therefore the practitioner does not express a review opinion in that regard.

Matters for IAASB Consideration

- Q223. Does the IAASB agree with the Task Force's views regarding the practitioner's responsibility regarding material misstatements in the financial statements due to fraud or non-compliance with laws and regulations in a review engagement?
- Q23. Does the IAASB have any initial perspectives on the question of reporting considerations to give a clear signal to users of review reports that the review cannot be relied on to detect material misstatements that may arise due to fraud or non-compliance with laws and regulations?

ASPECTS OF PERFORMANCE OF REVIEWS

86. The Framework establishes the general elements and objectives of an assurance engagement, and provides a frame of reference for practitioners when performing assurance engagements. It includes guidance on suitable criteria, professional judgment, professional skepticism, sufficient appropriate audit evidence and audit risk. ISRE 2400 does address some of these topics, though not in the necessary depth.

Professional Skepticism

87. A particular area that requires consideration in a review engagement is how the practitioner should apply the attribute of professional skepticism.¹⁷
88. The Framework embodies the concept, also set out as a general principle in ISRE 2400.06, that a practitioner performing an assurance engagement should plan and perform the engagement with an attitude of professional skepticism recognizing that circumstances may exist that cause the subject matter to be materially misstated. There are different views about the nature and level of professional skepticism required for review engagements. Some argue that the professional skepticism applied in a review is the same as that in an audit, whereas others argue that it is different, even when accepting the applicability of ISRE 2400.06 as written.
89. One correspondent member of the Task Force has noted that, due to the "limited assurance" objective of a review and the primary orientation towards evidence obtained through inquiry of management/those charged with governance, the way in which a practitioner performing a review applies this attitude is different. Specifically, it is argued that in a review the practitioner should be less skeptical (than in an audit) because the reviewer is prepared to accept less evidence or evidence of lesser quality (primarily obtained through inquiry and analytical review) than would be required for an audit. If a reviewer were to be as skeptical in a review as in an audit, the reviewer would, by implication, require the same evidence through the same additional procedures as required in an audit to corroborate the results of the inquiries and analyses performed in the review,

¹⁷ Professional skepticism is defined in the IAASB Glossary of Terms as "An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence."

rather than being prepared to accept consistent results from the inquiries and analyses alone without such additional corroborating evidence. This would not mean the practitioner would cease being skeptical about the results of the procedures when there are indications that the results are at variance with the reviewer's understanding of the entity or its environment or the financial reporting framework.

90. However, the consensus Task Force view is that the type of assurance being obtained does not drive the level of professional skepticism. Instead, an attitude of professional skepticism recognizes the *circumstances* that may exist that cause the financial statements to be materially misstated. For example, inquiry of management is a key procedure used to obtain evidence in a review, the application of skepticism to evaluate management responses effectively is very important to the quality of evidence obtained.
91. The Task Force believes that application of professional skepticism in a review is the same as in an audit. The fact that the engagement objective is achieved based on obtaining limited assurance to support the expression of the conclusion is not viewed as being a factor that influences how professional skepticism should be applied by the practitioner.
92. Indeed, the Task Force believes the approach described in paragraph 89 above is one that would seriously weaken the evidential base for the review, especially as regards procedures that involve inquiries of management. As a minimum, however, this debate illustrates that this aspect of performing a review probably requires clarification in application guidance in the revised standard.

Matters for IAASB Consideration

- Q24. Does the IAASB agree that the revised standard should address requirements and guidance to the application of the principles contained in the Framework regarding reviews of financial statements, for example regarding the application of professional skepticism?
- Q25. Does the IAASB agree with the Task Force's view regarding the approach to applying professional skepticism in a review of financial statements, as described in paragraph 91?

Management Representations

93. Obtaining management representations (or "written representations", as termed in the ISAs) is an important element of the evidence obtained in a review, especially because of the significant reliance placed on inquiry procedures in a review. Furthermore, the potential misunderstanding arising from oral responses may be reduced by obtaining written representations. Much inquiry is directed at the entity's management and staff since the review does not ordinarily extend to undertaking substantive procedures. Given the limited evidential basis for a review, and the potential for a large component of the evidential basis to be based on inquiry of management and persons with key involvement in the preparation of the financial statements the supplementary role of management representations strengthens the basis obtained for expressing the review conclusion.
94. The Task Force believes that obtaining management representations is a key part of the evidential basis for a review engagement, and that a revised standard should address this in requirements and guidance on obtaining and using management representations.

Matter for IAASB Consideration

Q26. Does the IAASB agree with the Task Force's view concerning management representations set out in paragraphs 93-94 above?

REPORTING

95. The Task Force's recommendation on the form of expression of the review conclusion is set out in Section F of Part III.
96. A further issue the Task Force believes will be important to address in the revised standard is that it should be aligned with relevant content of the ISA reporting standards, specifically regarding:
- Expression of the review conclusion in the context of different financial reporting frameworks (fair presentation frameworks; compliance frameworks; special purpose frameworks);
 - Modification of the review conclusion;
 - Use of Emphasis of Matter and Other Matter paragraphs in the report; and
 - Other reporting responsibilities, such as those imposed by laws or regulations.
97. The Task Force considered the question whether users of a review report that contains a modified conclusion receive anything of value. It believes, however, that such conclusions, whether modified for material disagreements or uncertainties, or disagreements that are both material and pervasive to the financial statements do have information content for users.
98. The Task Force also noted that in the developing regulatory environments of various countries, some regulators appear to be specifying, or intending to specify, a requirement for a review to be performed to replace existing mandatory audit requirements (for example, South Africa, and also a number of countries as shown in the July 2009 Fédération des Experts Comptables Européens (FEE) survey report.)¹⁸

Matter for IAASB Consideration

Q27. Does the IAASB agree that the revised standard should align with the ISA reporting standards in the areas mentioned above?

¹⁸ Report issued by FEE: "Survey on the Provision of Alternative Assurance and Assurance-Related Services Across Europe" (July 2009).

Appendix 1

List of Key Sources and References Used by the Task Force

- IAASB “International Framework for Assurance Engagements” and IAASB Engagement Standards.
- IAASB NSS Staff Consultation Paper, “Matters to Consider in a Revision of International Standard on Review Engagements 2400, *Engagements to Review Financial Statements*” (September 2008), and comments received from respondents.
- IFAC *Code of Ethics for Professional Accountants* (July 2009).
- FEE Report, “Survey on the Provision of Alternative Assurance and Assurance-Related Services Across Europe” (July 2009).
- AICPA Exposure Draft, “Proposed Statements on Standards for Accounting and Review Services, Proposed SSARS, Review of Financial Statements” (May 2009).
- Various AICPA Accounting and Review Services Committee Reliability Task Force materials.
- AICPA’s Statements on Standards for Accounting and Review Services (SSARs) 100 and 100A, “Compilation and Review of Financial Statements,” and related interpretations 9100 and 9100A.
- Australian Auditing and Assurance Standards Board:
 - Australian Standard on Review Engagements (ASRE) 2400, “Review of a Financial Report Performed by an Assurance Practitioner Who is not the Auditor of the Entity.” (August 2008).
 - ASRE 2405, “Review of Historical Financial Information Other than a Financial Report.” (August 2008).
- Canadian Institute of Chartered Accountants, Review Engagement Standards:
 - Section 8100 “General Review Standards,”
 - Section 8200 “Public Accountant’s Review of Financial Statements,”
 - Section 8500 “Reviews of Financial Information Other Than Financial Statements.”
- Institute of Chartered Accountants of England and Wales (ICAEW):
 - Issues Paper, “Audit-exempt Companies: Beyond the Threshold.” (August 2006).
 - Interim Technical Release AAF 03/06, “The ICAEW Assurance Service on Unaudited Financial Statements.” (2006).
 - “re: Assurance, Alternatives to Audit: Report on the ICAEW Assurance Service Consultation.” (July 2009).
- Auditing Practices Board, “Findings of the Field Trials of the Independent Professional Review.” (2001) (Report published after pilot testing standards developed for a proposed Independent Professional Review.)
- Institut der Wirtschaftsprüfer (IDW) Proposed Standard 7, “Compilation Engagements.”

Appendix 2

CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS (July 2009)

[Extracts only]

SECTION 290

INDEPENDENCE—AUDIT AND REVIEW ENGAGEMENTS

[Note for Readers: Underlined sections are relevant background for Part III, Section H of this Paper]

Structure of Section

- 290.1 This section addresses the independence requirements for audit engagements and review engagements, which are assurance engagements in which a professional accountant in public practice expresses a conclusion on financial statements. Such engagements comprise audit and review engagements to report on a complete set of financial statements and a single financial statement. Independence requirements for assurance engagements that are not audit or review engagements are addressed in Section 291.
- 290.2 In certain circumstances involving audit engagements where the audit report includes a restriction on use and distribution and provided certain conditions are met, the independence requirements in this section may be modified as provided in paragraphs 290.500 to 290.514. The modifications are not permitted in the case of an audit of financial statements required by law or regulation.
- 290.3 In this section, the term(s): • “Audit,” “audit team,” “audit engagement,” “audit client” and “audit report” includes review, review team, review engagement, review client and review report...

A Conceptual Framework Approach to Independence

- 290.4 In the case of audit engagements, it is in the public interest and, therefore, required by this Code of Ethics, that members of audit teams, firms and network firms shall be independent of audit clients.
- 290.5 The objective of this section is to assist firms and members of audit teams in applying the conceptual framework approach described below to achieving and maintaining independence.
- ...
- 290.12 This section does not, in most cases, prescribe the specific responsibility of individuals within the firm for actions related to independence because responsibility may differ depending on the size, structure and organization of a firm. The firm is required by International Standards on Quality Control to establish policies and procedures designed to provide it with reasonable assurance that independence is maintained when required by relevant ethical requirements. In addition, International Standards on Auditing require the engagement partner to form a conclusion on compliance with the independence requirements that apply to the engagement.
- ...

Those Charged with Governance

- 290.28 Even when not required by the Code, applicable auditing standards, law or regulation, regular communication is encouraged between the firm and those charged with governance of the audit client regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence. Such communication enables those charged with governance to
- (a) consider the firm's judgments in identifying and evaluating threats to independence,
 - (b) consider the appropriateness of safeguards applied to eliminate them or reduce them to an acceptable level, and
 - (c) take appropriate action...

...

Provision of Non-assurance Services to Audit Clients

- 290.156 Firms have traditionally provided to their audit clients a range of non-assurance services that are consistent with their skills and expertise. Providing non-assurance services may, however, create threats to the independence of the firm or members of the audit team. The threats created are most often self-review, self-interest and advocacy threats.

...

Management Responsibilities

- 290.162 Management of an entity performs many activities in managing the entity in the best interests of stakeholders of the entity. It is not possible to specify every activity that is a management responsibility. However, management responsibilities involve leading and directing an entity, including making significant decisions regarding the acquisition, deployment and control of human, financial, physical and intangible resources.
- 290.163 Whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would generally be considered a management responsibility include:
- Setting policies and strategic direction;
 - Directing and taking responsibility for the actions of the entity's employees;
 - Authorizing transactions;
 - Deciding which recommendations of the firm or other third parties to implement;
 - Taking responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; and
 - Taking responsibility for designing, implementing and maintaining internal control.

- 290.164 Activities that are routine and administrative, or involve matters that are insignificant, generally are deemed not to be a management responsibility. For example, executing an insignificant transaction that has been authorized by management or monitoring the dates for filing statutory returns and advising an audit client of those dates is deemed not to be a management responsibility. Further, providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility.
- 290.165 If a firm were to assume a management responsibility for an audit client, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level. For example, deciding which recommendations of the firm to implement will create self-review and self-interest threats. Further, assuming a management responsibility creates a familiarity threat because the firm becomes too closely aligned with the views and interests of management. Therefore, the firm shall not assume a management responsibility for an audit client.
- 290.166 To avoid the risk of assuming a management responsibility when providing non-assurance services to an audit client, the firm shall be satisfied that a member of management is responsible for making the significant judgments and decisions that are the proper responsibility of management, evaluating the results of the service and accepting responsibility for the actions to be taken arising from the results of the service. This reduces the risk of the firm inadvertently making any significant judgments or decisions on behalf of management. The risk is further reduced when the firm gives the client the opportunity to make judgments and decisions based on an objective and transparent analysis and presentation of the issues.

Preparing Accounting Records and Financial Statements

General Provisions

- 290.167 Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. These responsibilities include:
- Originating or changing journal entries, or determining the account classifications of transactions; and
 - Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders).
- 290.168 Providing an audit client with accounting and bookkeeping services, such as preparing accounting records or financial statements, creates a self-review threat when the firm subsequently audits the financial statements.
- 290.169 The audit process, however, necessitates dialogue between the firm and management of the audit client, which may involve
- (a) the application of accounting standards or policies and financial statement disclosure requirements,

- (b) the appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities, or
- (c) proposing adjusting journal entries.

These activities are considered to be a normal part of the audit process and do not, generally, create threats to independence.

290.170 Similarly, the client may request technical assistance from the firm on matters such as resolving account reconciliation problems or analyzing and accumulating information for regulatory reporting. In addition, the client may request technical advice on accounting issues such as the conversion of existing financial statements from one financial reporting framework to another (for example, to comply with group accounting policies or to transition to a different financial reporting framework such as International Financial Reporting Standards). Such services do not, generally, create threats to independence provided the firm does not assume a management responsibility for the client.

Audit Clients that are Not Public Interest Entities

290.171 The firm may provide services related to the preparation of accounting records and financial statements to an audit client that is not a public interest entity where the services are of a routine or mechanical nature, so long as any self-review threat created is reduced to an acceptable level. Examples of such services include:

- Providing payroll services based on client-originated data;
- Recording transactions for which the client has determined or approved the appropriate account classification;
- Posting transactions coded by the client to the general ledger;
- Posting client-approved entries to the trial balance; and
- Preparing financial statements based on information in the trial balance.

In all cases, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.

Examples of such safeguards include:

- Arranging for such services to be performed by an individual who is not a member of the audit team; or
- If such services are performed by a member of the audit team, using a partner or senior staff member with appropriate expertise who is not a member of the audit team to review the work performed.