

Review Engagements—Issues and IAASB Task Force Proposals**Introduction**

1. The objective of this Paper is to consider significant issues to be addressed in the revision of ISRE 2400¹ in respect of:
 - (a) The practitioner's objectives; and
 - (b) The procedures to be performed in a review engagement.
2. The current working draft of revised ISRE 2400 in **Agenda Item 4-B** is provided for reference. That material is not presented for discussion by the IAASB except as addressed in this Issues Paper. Nevertheless, the Task Force considers that being able to view the full draft revised standard may be beneficial when considering the issues raised. For ease of reference, relevant extracts from the draft revised ISRE are included in this Agenda Item in respect of each issue raised (Table 1 and Table 2 in this Paper). All references to the requirements of draft revised ISRE 2400 in this Paper are to the content reflected in Tables 1 and 2.

Significant Issues**A. THE PRACTITIONER'S OBJECTIVES**

[Note to Readers: This section of the Paper references the relevant extracts from the draft ISRE provided in Table 1 (see pages 2-5 of this Paper). Table 1 reflects only the relevant requirements paragraphs from the draft revised ISRE, and related application material.]

3. At its meeting in June 2010 the IAASB discussed the revised ISRE and provided comments to the Task Force on the draft ISRE. The Board first agreed that the practitioner's conclusion for a review engagement should be in the negative form. Further suggestions on the draft revised ISRE were made in the context of use of the negative form of conclusion.
4. At its meeting in July 2010 the IAASB provided comments to the Task Force on different expressions of the practitioner's objectives in a review presented for the Board's consideration. IAASB members commented that the objectives should make reference to the 'procedures-oriented' nature of the review. Other comments received from IAASB members emphasized the need for reference to the concepts of risk and evidence to establish a basis to express a conclusion.
5. The Task Force believes it is impracticable for the statement of the objectives to include reference to all the elements of a review as a form of assurance engagement. It is therefore proposing the combination of a concise statement of the practitioner's

¹ International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Financial Statements*

objectives in a review of financial statements, coupled with a description of the nature of the review of financial statements in the introductory section of the standard. These introductory paragraphs describe the principal conceptual elements of the review as a form of limited assurance engagement. The Task Force intends the introduction to frame the objective, and allow for a concise statement of the objectives. This is not inconsistent with the approach taken in ISA 200².

6. The Task Force’s proposed statement of the practitioner’s objectives is set out in paragraph R13 in Table 1. The proposed introductory paragraphs that frame these objectives are set out in paragraphs R4-R8 in Table 1.

**Table 1: Relevant Extracts from Draft Revised ISRE 2400—
The Practitioner’s Objectives**

[Note to Readers: The paragraph numbers below follow the numbering of the draft revised ISRE, however to distinguish these paragraphs from the paragraph numbers of this Issues Paper an “R” is used with each requirements paragraph.]

...

Introduction

Scope of this ISRE

- R1. This International Standard on Review Engagements (ISRE) deals with:
- (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
- R2. A practitioner engaged to perform a review of an entity’s financial statements or interim financial information, who is the auditor of the entity’s financial statements, performs such a review in accordance with ISRE 2410.³

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The Engagement to Review Historical Financial Statements

- R4. The review of historical financial statements is a limited assurance engagement, as described in the *International Framework for Assurance Engagements* (the Framework).⁴

² International Standard on Auditing (ISA) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

³ International Standard on Review Engagements (ISRE) 2410, *Review of Interim Financial Information performed by the Independent Auditor of the Entity*

⁴ *International Framework for Assurance Engagements*, paragraphs 11, 48 and 59

R5. 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.⁵ A review engagement conducted in accordance with this ISRE and relevant ethical requirements enables the practitioner to form that conclusion.

R6. Applying the concepts of limited assurance explained in the Framework, a review engagement under this ISRE involves providing the practitioner's conclusion on the financial statements reviewed expressed in negative form. The form of conclusion expressed by the practitioner will also depend upon the applicable financial reporting framework and any applicable law or regulation.

R7. In a review of financial statements the practitioner performs procedures, primarily inquiry and analytical review, to obtain sufficient appropriate evidence to have a reasonable basis to form a conclusion on the financial statements as a whole, expressed in the negative form as required under this ISRE.

R8. Where there is indication the financial statements are likely to be materially misstated, the practitioner performs such further procedures as the practitioner considers necessary to have a reasonable basis to form a conclusion on the financial statements as a whole in accordance with this ISRE.

Authority of this ISRE

...

Effective Date

...

Objectives

R13. The practitioner's objectives in conducting a review of financial statements are:

- (a) To perform procedures to obtain sufficient appropriate evidence to form a conclusion about whether anything has come to the attention of the practitioner 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
- (b) To report on the financial statements as a whole, and communicate as required by this ISRE, in accordance with the practitioner's findings.

Inability to Obtain Sufficient Appropriate Evidence in a Review

R14. If the practitioner is not able to perform procedures to obtain sufficient appropriate

⁵ Framework, paragraph 7

evidence to form a conclusion on the financial statements in the form required under this ISRE, 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.

Application and Other Explanatory Material

Scope of this ISRE (Ref: Para. 1)

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The Engagement to Review Historical Financial Statements

- A2. Reviews of financial statements may be performed for a wide range of entities that vary by type of entity, and size and by level of complexity in financial reporting. In some countries or jurisdictions the review of financial statements of certain types of entity may also be the subject of national laws or regulations and related reporting requirements.
- A3. Reviews may be performed in a variety of circumstances. For example, they may be required for, or requested by entities that are exempt from mandatory audit requirements specified in laws or regulations for 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.
- A4. In a review of financial statements the practitioner performs procedures designed to be sufficient to have a reasonable basis to form a conclusion on the financial statements, expressed in the negative form as required under this ISRE. Expression of the practitioner's conclusion in the required form provides a signal to users of the practitioner's report, that the practitioner's conclusion is based on evidence-gathering procedures that are limited, but nevertheless sufficient to provide a reasonable basis for expressing the conclusion in that form.

Objectives

Inability to Obtain Sufficient Appropriate Evidence in the Review

- A5. 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.

- A6. This ISRE sets out requirements and guidance for the practitioner when the practitioner encounters such circumstances either prior to accepting a review engagement, or when encountered during a review.

Matters for IAASB Consideration:

- Does the IAASB agree with the proposed approach for setting out the practitioner’s objectives draft revised ISRE 2400, using the introductory paragraphs to set out the conceptual underpinnings of the engagement with reference to the Framework?
- Does the IAASB agree with the proposed statement of the practitioner’s objectives in paragraph R13 in Table 1?

B. PERFORMING THE PROCEDURES IN A REVIEW

[Note to Readers: This section of the Paper references the relevant extracts from draft revised ISRE 2400 provided in Table 2 on pages 11-18. Table 2 reflects only the requirement paragraphs from the draft ISRE relevant to this issue. Related application material can be viewed in Agenda Item 4-B.]

7. Based on comments provided by the IAASB at its meeting in June 2010, the Task Force has further considered the procedures to be performed by the practitioner in a review engagement.
8. The Task Force has developed a flow chart representing the practitioner’s considerations in performing a review, under draft revised ISRE 2400. The flowchart is included in the **Appendix** to this Paper. It reflects the different phases of a review engagement, and highlights the following two situations in a review where, having performed inquiry and analytical procedures, the practitioner considers whether based on the results of those procedures:
 - (a) The practitioner is able to conclude, in the required form for a review, that nothing 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 the applicable financial reporting framework;or
 - (b) There is indication that the financial statements are likely to be materially misstated. This circumstance would lead the practitioner to design and perform further procedures to determine whether the financial statements are material misstated, or alternatively, is able to conclude as in paragraph 8(a) above.
9. The Task Force believes the flow chart is useful for consideration of the issues the Task Force raises in the remainder of this Paper.

B.1 *Materiality in a Review of Financial Statements*

10. Performing a review engagement requires an understanding of what is “material” in the context of the financial statements that are being reviewed. Draft revised ISRE 2400 contains the following requirement (see paragraph R39 in Table 2):

The practitioner shall determine materiality for the financial statements as a whole, and apply it in performing the review procedures and evaluating the results obtained from those procedures.

11. This requirement is supported by four paragraphs of application material that explain, at a high-level, what references the practitioner uses to determine materiality in individual engagements (see paragraphs A73-A76 in Agenda Item 4-B). There is, however, no application material explaining how the practitioner applies materiality in a review of financial statements.
12. The Task Force has concluded that further guidance is not needed as the concept of materiality will be understood by a professional accountant in public practice. Further, this is consistent with the input the Task Force has received from the Board that application of materiality does not differ across different assurance engagements. However, if the Board considers that further guidance is necessary, it would need to be at a high level. For example, possibly a general discussion on application of materiality in designing and performing procedures, evaluating results, and forming the conclusion on the financial statements. As noted, the Task Force does not believe this is needed.

Matters for IAASB Consideration:

- Does the IAASB believe the revised ISRE needs to explain how the practitioner applies the concept of materiality to perform a review of financial statements?

B.2 *The “Mechanics” of Performing a Review, and Procedures to be Performed in Every Review*

13. The Task Force has identified a sequence of activities the practitioner carries out once the practitioner decides to accept a review engagement. Those activities are, in broad terms, what is needed to perform the review. The practitioner’s work effort in carrying out the review and in performing evidence-gathering procedures should be sufficient for the practitioner to have a basis to form a conclusion on the financial statements as a whole in the form required under draft revised ISRE 2400.
14. The sequence of activities is as follows:
- (a) Obtain sufficient knowledge and understanding to be able to identify where risks of material misstatements in the financial statements are likely to exist (without that involving a comprehensive formal risk assessment process);
 - (b) Design and perform inquiry and analytical review procedures to obtain a sufficient basis to form a conclusion on the financial statements as a whole;

- (c) Then form a conclusion on the financial statements as a whole based on the practitioner's findings; and
- (d) Report the conclusion in the practitioner's report, in the negative form.

Throughout this sequence of activities the practitioner maintains communications with management or those charged with governance, as appropriate, raising issues encountered in the review with management or those charged with governance as appropriate on a timely basis.

15. The Task Force has developed the requirements to perform a review addressing the following main areas:
 - (a) Designing and performing inquiry and analytical procedures; (see paragraphs R41-R43 in Table 2)
 - (b) Procedures in specific circumstances – these address the areas of fraud and illegal acts and non-compliance with laws or regulations; going concern and use of work performed by others; (see paragraphs R47-R49 in Table 2)
 - (c) Reconciliation of the financial statements to the underlying accounting records; (see paragraph R50 in Table 2)
 - (d) Particular considerations relevant to the applicable financial reporting framework; (see paragraph R51 in Table 2)
 - (e) Written representations (see paragraphs R52-R55 in Table 2); and
 - (f) Subsequent events (see paragraphs R56-R59 in Table 2).
16. On the matter of the specificity of the requirements on performing inquiry and analytical procedures, inputs to the Task Force have confirmed that practitioners value the availability of illustrative examples of types of detailed procedures that can be used in a review. The Task Force believes that inclusion of an appendix in the revised ISRE, similar to that in the extant ISRE 2400, would be appropriate. Such an appendix (under development) would need to make clear that the procedures listed are illustrative only and that they would not all apply in all cases.
17. The description of the sufficiency of the practitioner's procedures, absent any indication that material misstatements actually exist, to be able to form a conclusion on the financial statements as a whole, is discussed in sub-section B.3 below.
18. The question of designing and performing further procedures when there is indication of a material misstatement is discussed in sub-section B.4 below.

Forming the Conclusion and the Form of Conclusion

19. The draft requirements set out in paragraphs R60–R65 of Table 2 focus on the stage of the engagement where the practitioner forms a conclusion based on the findings in the review.

20. Except for the matter of use of the term “sufficient appropriate evidence” in paragraph R60 of Table 2 – which is addressed in the next section of this paper (sub-section B.3 below), the Task Force would appreciate the IAASB’s views on whether these draft requirements adequately address this stage of the engagement, and on forming the conclusion on the financial statements on either a modified or an unmodified basis.

Matters for IAASB Consideration:

- Does the IAASB agree with the Task Force’s description of the “mechanics of a review” set out above?
- Does the IAASB consider that the draft requirements in paragraphs R41–R43 of Table 2 and R47–R59 of Table 2, reflect adequately in the revised ISRE how a review is required to be performed, absent any indication of material misstatement in the financial statements?
- Does the IAASB support the Task Force’s recommendation to include an appendix with the draft revised ISRE, to illustrate specific types of inquiry and analytical procedures that might be considered for use by the practitioner performing a review engagement?
- Does the IAASB agree with the proposed requirements in R60–R65 in Table 2 on forming the conclusion based on the practitioner’s findings?

(Questions regarding further procedures follow paragraph 30 of this Paper)

B.3 Forming the Conclusion Based on the Evidence Obtained

21. The Task Force believes the sufficiency of inquiry and analytical procedures needed to form a conclusion on the financial statements absent any indication of a likely material misstatement, is a matter of professional judgment.
22. The Framework describes the concept of “sufficient appropriate evidence” in the context of assurance engagements generally,⁶ and also provides further context to guide understanding and application of the words “sufficient” and “appropriate.”⁷ The Framework does not elaborate on what is sufficient or appropriate in the context of a limited assurance engagement, other than to state that, “the combination of the nature, timing and extent of evidence-gathering procedures is at least sufficient for the practitioner to obtain a meaningful level of assurance as the basis for a negative form of expression.”⁸
23. If the IAASB considers this aspect needs further clarification in respect of reviews of financial statements that would need to be done in the revised ISRE rather than in the

⁶ Framework, paragraph 39

⁷ Framework, paragraphs 42–46

⁸ Framework, paragraph 48

Framework. This is because the Framework does not deal with specific types of subject matter or subject matter information.

24. Given that draft revised ISRE 2400 would apply in a wide variety of circumstances, for different types and sizes of entity, the Task Force believes that it should, as far as practicable, leave the interpretation of what is “sufficient appropriate evidence” to the practitioner’s professional judgment taking account of the circumstances of individual engagement. Explanatory material may be provided to make this clear and underline the need for appropriate judgment by the practitioner.
25. At the June 2010 IAASB meeting, some IAASB members questioned whether the phrase “sufficient appropriate evidence” can be used meaningfully in conjunction with the required negative form of expression of the practitioner’s conclusion on the financial statements as a whole. These members explained that it is one thing to say you have “sufficient appropriate evidence” to be able to conclude that something is “right” (positive form of conclusion); saying you have “sufficient appropriate evidence” to conclude “nothing has come to the practitioner’s attention that causes the practitioner to believe ...” may appear somewhat disingenuous. This is because the practitioner could theoretically have obtained no evidence and still be able to form a negatively expressed conclusion.
26. To rebut the argument, the requirements of the review make it very clear that the practitioner must obtain a meaningful knowledge and understanding, and must design and perform inquiry and analytical procedures and an array of procedures related to specific circumstances. Consequently, the seemingly disingenuous nature of the expression “sufficient appropriate evidence” in the context of a negatively expressed conclusion should be dispelled on a reading of the entire ISRE, as required by the standard itself.
27. It was also suggested that it would be helpful to find another way to express the Framework concept that the practitioner is required to obtain a sufficient basis to be able to form a reasonable conclusion on the financial statements expressed in the negative form. The Task Force accepts the point, and recognizes that the problem could also be exacerbated by translations.
28. The Task Force sees two possible courses of action for the draft revised ISRE:
 - (a) Avoid use of “sufficient appropriate evidence” altogether; or
 - (b) Continue to use the words “sufficient appropriate evidence,” but provide application guidance to explain that in the context of a review this phrase means performing procedures sufficient to obtain a reasonable basis for expressing the conclusion in the required form. What constitutes a reasonable basis would need to be determined by the practitioner in the circumstances of an individual engagement.
29. The Task Force does not have a clear preference for either of these, and would appreciate the IAASB’s views. For the time being the Task Force has retained use of “sufficient appropriate evidence,” both in the draft requirements and in the draft statement of the practitioner’s objectives (discussed in section A of this Paper).

Matters for IAASB Consideration:

- What are the IAASB’s views about whether it is appropriate to use the phrase “sufficient appropriate evidence” in formulating the requirements for the revised ISRE?
- If the IAASB supports continued use of the phrase with appropriate explanatory material does the IAASB agree with how the Task Force proposes to explain how the term should be interpreted in the revised ISRE, as set out in paragraphs 21, 24 and 28(b) above?

B.4 Forming the Conclusion Where Further Procedures are Necessary

30. The results of the practitioner’s inquiry and analytical procedures may indicate that the financial statements are likely to be materially misstated. For example, the practitioner may have an indication that the value of a long term asset, material in the context of the financial statements as a whole, is likely to be overstated (because of inadequate impairment provision under the applicable financial reporting framework).
31. On the indication that a material misstatement is likely in the financial statements, the practitioner must perform further procedures to determine whether the affected items in the financial statements are materially misstated. The practitioner designs and performs the further procedures the practitioner considers necessary to make that determination. The practitioner also communicates with management about the conditions that make performance of further procedures necessary and implications for the engagement, if any, including regarding the practitioner’s report.
32. The Task Force proposes that the term ‘further procedures’ be defined as follows for the purpose of the revised ISRE:

Further procedures—Additional procedures performed when there is indication that the financial statements being reviewed are likely to contain a material misstatement.
33. The Task Force believes it is not practicable to require specific further procedures in the revised ISRE, because they will depend on the circumstances of the engagement. Accordingly, the Task Force has formulated the relevant requirements (paragraphs R44-R46 in Table 2) at a high-level, supplemented by application material to guide the practitioner’s consideration and decisions.
34. The critical point, in the Task Force’s view, is to make it clear that to form the practitioner’s conclusion on the financial statements as a whole:
 - (a) If the practitioner is able to determine that a material misstatement exists, then the practitioner will conclude on a modified basis (qualified or adverse conclusion), or
 - (b) If the practitioner is able to conclude that the affected items are not likely to be materially misstated, the practitioner will conclude on an unmodified basis. The Task Force believes that the threshold to be able to conclude on an unmodified basis, at this point, should be that the results of further procedures performed are

sufficient for the practitioner to conclude that the affected items are not likely to cause the financial statements to be materially misstated.

35. If management or the engaging party requests the practitioner not to perform further procedures, for example because the additional work would increase the overall cost of the engagement, that would constitute a limitation on the scope of the engagement. The practitioner would then decide, whether to either:
- (a) Disclaim a conclusion in the report, or whether a qualified conclusion is appropriate; or
 - (b) Withdraw from the engagement without expressing a conclusion if the circumstances warrant that response (and applicable law or regulation does not preclude withdrawal).

Matters for IAASB Consideration:

- Does the IAASB agree with the description above of how the practitioner is required to respond when there is indication that the financial statements are likely to contain a material misstatement? And with the draft requirements shown in paragraphs R44-R46 in Table 2?
- Does the IAASB agree with the principles-based approach applied in the draft requirements addressing that circumstance?
- Does the IAASB agree with the Task Force’s view about the evidential basis the practitioner needs to obtain when applying further procedures, to determine whether affected items are materially misstated, as described above?

Table 2: Relevant Extracts from Draft Revised ISRE 2400—Procedures Performed in the Review Engagement

[Note to Readers: The paragraph numbers below follow the numbering of the draft revised ISRE, however to distinguish these paragraphs from the paragraph numbers of this Issues Paper an “R” is used with each requirements paragraph.]

....

Performing the Engagement

Materiality in a Review of Financial Statements

- R39. The practitioner shall determine materiality for the financial statements as a whole, and apply it in performing the review procedures and evaluating the results obtained from those procedures. (Ref: Para. A73–A76)

Table 2 (cont'd)

Performing the Engagement

Materiality in a Review of Financial Statements

R39. The practitioner shall determine materiality for the financial statements as a whole, and apply it in performing the review procedures and evaluating the results obtained from those procedures. (Ref: Para. A73–A76)

Practitioner's Knowledge and Understanding

R40. The practitioner's shall obtain: (Ref: Para. A72; A77–A81)

- (a) Knowledge and understanding of the entity and its environment, including the entity's accounting system and accounting records relevant to the review, and
- (b) An understanding of the applicable financial reporting framework, including its application in the industry in which the entity operates,

sufficient to identify where risks of material misstatement are likely to exist in the financial statements as a whole, and to be able to design procedures to respond to those risks. The practitioner obtains knowledge and understanding of the entity and its environment through a combination of:

- (i) The practitioner's preliminary knowledge obtained at the engagement acceptance stage, and
- (ii) Performing inquiry and analytical procedures.

Designing and Performing Inquiry and Analytical Procedures

R41. The practitioner shall design and perform inquiry and analytical procedures to respond to identified areas of risk of material misstatement in the financial statements, sufficient to have a basis to form a conclusion on the financial statements as a whole in the form required under this ISRE. (Ref: Para. A82; A84; A86)

R42 In designing analytical procedures, the practitioner shall consider whether the data from the entity's accounting system and accounting records is satisfactory for the purpose of performing the analytical procedures. (Ref: Para. A87–A90)

R43 In designing inquiries to identify where there may be risk of material misstatements occurring in the financial statements, the practitioner shall include inquiries of management, and others within the entity as appropriate concerning: (Ref: Para. A85)

- (a) All material items in the financial statements, including disclosures, and
- (b) 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;

Table 2 (cont'd)

- (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 or audit engagement carried out; and
 - (vi) Effects or possible implications for the entity of transactions or relationships with related parties; and
- (c) Knowledge 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 a tax and pension laws and regulations.
- (d) 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.

Further Procedures When there is Indication the Financial Statements are Likely to be Materially Misstated (Ref: Para. A83; A91–A95)

- R44. If results obtained from the inquiry and analytical procedures performed indicate that material misstatements are likely in the financial statements, the practitioner shall design and perform further procedures sufficient to either:
- (a) Determine that affected items in the financial statements are materially misstated, or
 - (b) Conclude that the affected items are not likely to be materially misstated.
- R45. The practitioner shall communicate with management about the circumstances that give rise to the need to perform further procedures, and that the practitioner will perform such procedures as the practitioner considers necessary to be able to reach a conclusion regarding the affected items.
- R46. The practitioner evaluates results obtained from the further procedures performed to form a conclusion whether the affected items in the financial statements are materially misstated.

Table 2 (cont'd)

Procedures in a Review Engagement Related to Specific Circumstances

Fraud and Illegal Acts

R47. A review of financial statements is not designed to uncover all fraud or illegal acts affecting the financial statements. However, an indication that fraud or illegal acts have occurred in an entity may indicate that a material misstatement is likely in the entity's financial statements. If during performance of the review there is indication that fraud or illegal acts have occurred, or non-compliance with laws or regulations, that affect the entity's financial statements the practitioner shall:

- (a) Communicate that matter to the appropriate level of senior management or those charged with governance as appropriate; and
- (b) Request management's assessment of the effect(s), if any, on the financial statements, including any amendments needed to reflect those effect in the financial statements; and
- (c) Assess the effect(s), if any, of management's assessment of the effects communicated to the practitioner in paragraph 47(b), on the practitioner's conclusion on the financial statements and on the practitioner's report.

Going Concern (Ref: Para. A96–A98)

R48. A review of financial statements includes inquiring as to the entity's ability to continue as a going concern when the applicable financial reporting framework includes the assumption of an entity's continuance as a going concern. If during the performance of the review there is an indication of significant doubt about the entity's ability to continue as a going concern, the practitioner shall:

- (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 conclude whether the financial statements are materially misstated or are misleading with regard to the entity's ability to continue as a going concern.

Use of Work Performed by Others

R49. 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

Table 2 (cont'd)

review and intends to rely on that work, the practitioner shall:

- (a) 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; and
- (b) Document the steps taken as part of the engagement documentation.

Reconciliation of the Financial Statements to the Underlying Accounting Records

R50. The practitioner shall obtain evidence that the financial statements agree with, or reconcile to the entity's underlying accounting records. (Ref: Para. A99)

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

R51. The practitioner shall read the financial statements and: (Ref: Para. A101–A103)

- (a) Evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework;
- (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 effect of material transactions and events on the information conveyed in the financial statements.

Written Representations (Ref: Para. A104–A105)

R52. 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:

Table 2 (cont'd)

- (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 paragraphs 52(a)-(b), the relevant matters covered by such statements need not be included in the written representation.

R53. The practitioner shall also obtain management's written representations that management has disclosed to the practitioner:

- (a) Significant facts relating to any frauds or suspected frauds known to management that may have affected the entity;
- (b) Known actual or possible non-compliance with laws and regulations for which the effects of non-compliance affect the entity's financial statements;
- (c) 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
- (d) 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.

R54. The practitioner shall request written representations from management on any specific items concerning the financial statements as the practitioner deems necessary to support other evidence relevant to the financial statements.

Date of and Period(s) Covered by Written Representations

R55. 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

R56. The practitioner shall perform inquiry and analytical procedures sufficient to conclude 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.

Table 2 (cont'd)

- R57. If the practitioner identifies events not identified by management that require adjustment or, or disclosure in the financial statements, the practitioner shall draw these to management's attention to be appropriately reflected in the financial statements in accordance with the applicable financial reporting framework.
- R58. 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; and
 - (b) Determine whether the financial statements need amendment; and, if so,
 - (c) Inquire how management intends to address the matter in the financial statements.
- R59. 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 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

- R60. Based on evidence obtained from the procedures performed, the practitioner shall consider whether the practitioner has obtained sufficient appropriate evidence to conclude whether anything has come to the practitioner's attention that causes the practitioner to believe the financial statements as a whole are not prepared, in all material respects, in accordance with the applicable financial reporting framework, on either an unmodified or a modified basis. (Ref: Para. A106; A109)
- R61. The practitioner shall assess the impact of:
- (a) Unadjusted misstatements identified during the review, or in the previous year's review or audit 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)

Table 2 (cont'd)

R62. If the financial statements are prepared using a fair presentation framework the practitioner shall consider whether the financial statements fairly present, in all material respects, or give a true and fair view, as appropriate, in accordance with the applicable framework. The practitioner's consideration shall include: (Ref: Para. A107–A108)

- (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.

Scope Limitations (Ref: Para. A112–A115)

R63. When the practitioner considers that:

- (a) The procedures performed do not provide a sufficient basis to form a conclusion on the financial statements in accordance with this ISRE, and
- (b) It is not practicable to perform further procedures in relation to identified areas of likely material misstatement, due to particular circumstances that exist in the engagement;

the practitioner shall discuss with management the effects that such limitations on the scope of the review have on:

- (i) The practitioner's ability to form a conclusion on the financial statements as a whole; and
- (ii) The practitioner's report.

Form of the Conclusion

The Conclusion is Unmodified

R64. 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 are not fairly presented, in all material respects, in accordance with the applicable financial reporting framework, or do not give a true and fair view as appropriate, in accordance with the applicable financial

reporting framework.

The Conclusion is Modified

- R65. The practitioner shall express a modified conclusion in the practitioner's report on the financial statements as a whole when:
- (a) The practitioner concludes 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, to have a sufficient basis to form a reasonable conclusion on the financial statements as a whole.

C. FLOWCHART OF A REVIEW ENGAGEMENT

36. The Task Force invites the IAASB's comments also about the flowchart diagram included in the Appendix to this Paper, as set out below.

Matters for IAASB Consideration:

Subject to the discussion of the preceding issues, the IAASB is asked for its view on the following:

- Is the flow chart developed by the Task Force sufficiently detailed as to key steps carried out by practitioners in a review, in the various phases of the engagement? Does the IAASB have any other comments on the flowchart?
- Does the IAASB consider that inclusion of a flowchart, such as the one shown in the Appendix, would be helpful to include in the exposure draft for proposed revised 2400?

Flowchart Diagram on Key Phases of an Engagement to Review Historical Financial Statements in draft revised ISRE 2400

