

Engagements to Review Historical Financial Statements—Draft International Standard on Review Engagements ISRE 2400 (Revised)

[Clean]

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

CONTENTS

	Paragraph
Introduction	
Scope of this ISRE	1–4
The Engagement to Review Historical Financial Statements	5–8
Authority of this ISRE	9–12
Effective Date	13
Objectives	14–15
Definitions	16–17
Requirements	
Conduct of a Review Engagement in Accordance with this ISRE	18–20
Ethical Requirements	21
Professional Skepticism and Professional Judgment	22–23
Engagement Level Quality Control	24–28
Acceptance and Continuance of Client Relationships and Review Engagements.....	20–41
Communication with Management and Those Charged with Governance	42
Performing the Engagement	43–59
Written Representations	60–63
Subsequent Events	64–66
Forming the Practitioner’s Conclusion on the Financial Statements	67–83
The Practitioner’s Report	84–91
Documentation	92–95
Application and Other Explanatory Material	
Scope of this ISRE	A1–A5
The Engagement to Review Historical Financial Statements	A6–A8

Objectives	A9–A11
Definitions	A12–A15
Conduct of a Review Engagement in Accordance with this ISRE	A16
Ethical Requirements	A17–A18
Professional Skepticism and Professional Judgment	A19–A27
Engagement Level Quality Control	A28–A34
Acceptance and Continuance of Client Relationships and Review Engagements	A35–A66
Communication with Management and Those Charged with Governance	A67–A73
Performing the Engagement	A74–A108
Written Representations	A109–A110
Forming the Practitioner’s Conclusion on the Financial Statements	A111–A124
The Practitioner’s Report	A125–A152
Appendix 1: Illustrative Engagement Letter for an Engagement to Review Historical Financial Statements	
Appendix 2: Illustrative Practitioners’ Review Reports	

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

Introduction

Scope of this ISRE

1. This International Standard on Review Engagements (ISRE) deals with: (Ref: Para. A1)
 - (a) The practitioner's responsibilities when engaged to perform a review of historical financial statements, when the practitioner is not the auditor of the entity's financial statements; and
 - (b) The form and content of the practitioner's report on the financial statements.
2. A practitioner engaged to perform a review of an entity's financial statements or interim financial information, who is the auditor of the entity's financial statements, performs such a review in accordance with ISRE 2410.¹ (Ref: Para. A2)
3. This ISRE is to be applied, adapted as necessary, to reviews of other historical financial information. Limited assurance engagements performed for information other than historical financial information are performed under ISAE 3000.²

*Relationship with ISQC 1*³

4. Quality control systems, policies and procedures are the responsibility of the firm. ISQC 1 applies to firms of professional accountants in respect of a firm's engagements to review financial statements.⁴ The provisions of this ISRE regarding quality control at the level of individual review engagements are premised on the basis that the firm is subject to ISQC 1 or requirements that are at least as demanding. (Ref: Para. A3–A5)

The Engagement to Review Historical Financial Statements

5. The review of historical financial statements is a limited assurance engagement, as described in the *International Framework for Assurance Engagements* (the Assurance Framework).⁵ (Ref: Para. A6–A7)
6. In a review of financial statements, the practitioner expresses a conclusion that is designed to enhance the degree of confidence of intended users regarding the preparation of an entity's financial statements in accordance with an applicable financial reporting framework. (Ref: Para. A8)
7. The practitioner performs procedures, primarily consisting of inquiry and analytical procedures, to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole, expressed in accordance with the requirements of this ISRE. (Ref: Para. A8)

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

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

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

⁴ ISQC 1, paragraph 4

⁵ International Framework for Assurance Engagements, paragraphs 7 and 11

8. If the practitioner becomes aware of a matter that causes the practitioner to believe the financial statements may be materially misstated, designs and performs additional procedures, as the practitioner considers necessary in the circumstances, to be able to conclude on the financial statements in accordance with this ISRE. (Ref: Para. A8)

Authority of this ISRE

9. This ISRE contains the objectives of the practitioner in following the ISRE which provide the context in which the requirements of this ISRE are set, and are intended to assist the practitioner in understanding what needs to be accomplished in a review engagement.
10. The ISRE contains requirements, expressed using “shall,” that are designed to enable the practitioner to meet the stated objectives.
11. In addition, this ISRE contains introductory material, definitions, and application and other explanatory material, that provide context relevant to a proper understanding of the ISRE.
12. The application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. While such guidance does not itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this ISRE that assists in the application of the requirements.

Effective Date

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

Objectives

14. The practitioner’s objectives in a review of financial statements under this ISRE are to:
 - (a) Obtain limited assurance about whether anything has come to the practitioner’s attention that causes the practitioner to believe the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework; and (Ref: Para. A8)
 - (b) Report on the financial statements as a whole, and communicate as required by this ISRE.
15. If the practitioner is not able to form a conclusion in accordance with this ISRE on the financial statements, the practitioner is required to either disclaim a conclusion in the report issued for the engagement or, where appropriate, withdraw from the engagement if withdrawal is possible under applicable law or regulation. (Ref. Para A9–A11)

Definitions

16. The Handbook’s Glossary of Terms⁶ (the Glossary) includes the terms defined in this ISRE and also includes descriptions of other terms found in this ISRE, to assist in consistent application and interpretation. For example, the terms “management” and “those charged with governance” used

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

throughout this ISRE are as defined in the Glossary. (Ref: Para. A12–A13)

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

- (a) *Analytical procedures*—Evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.
- (b) *Assurance skills and techniques*—Those planning, evidence gathering, evidence evaluation and reporting skills and techniques distinct from expertise in financial reporting. (Ref: Para. A14)
- (c) *General purpose financial statements*—Financial statements prepared in accordance with a general purpose framework.
- (d) *General purpose framework*—A financial reporting framework designed to meet the common financial needs of a wide range of users. The financial reporting framework may be a fair presentation framework or a compliance framework.
- (e) *Inquiry*—Inquiry consists of seeking information of knowledgeable persons from within or outside the entity
- (f) *Limited Assurance*—The level of assurance obtained where engagement risk is reduced to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement.(Ref: Para. A15)
- (g) *Practitioner*—A professional accountant in public practice. The term includes the practitioner or other members of the engagement team, or, as applicable, the firm. Where this ISRE expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “practitioner” is used. “Engagement partner” and “firm” are to be read as referring to their public sector equivalents where relevant.
- (h) *Professional judgment*—The application of relevant training, knowledge and experience, within the context provided by assurance standards, and accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the review engagement.
- (i) *Relevant ethical requirements*—Ethical requirements the engagement team is subject to when undertaking review engagements. These requirements ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants’ *Code of Ethics for Professional Accountants* (IESBA Code), together with national requirements that are more restrictive.
- (j) *Special purpose financial statements*—Financial statements prepared in accordance with a special purpose framework.
- (k) *Special purpose framework*—A financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework.

Requirements

Conduct of a Review Engagement in Accordance with this ISRE

18. The practitioner shall have an understanding of the entire text of this ISRE, including its application and other explanatory material, to understand its objectives and to apply its requirements properly. (Ref: Para. A16)

Complying with Relevant Requirements

19. The practitioner shall comply with each requirement of this ISRE, unless a requirement is not relevant to the review engagement.. A requirement is relevant to the review engagement when the circumstances addressed by the requirement exist.
20. The practitioner shall not represent compliance with this ISRE in the practitioner's report unless the practitioner has complied with all the requirements of this ISRE relevant to the review engagement.

Ethical Requirements

21. The practitioner shall comply with relevant ethical requirements, including those pertaining to independence. (Ref: Para. A17–A18)

Professional Skepticism and Professional Judgment

22. The practitioner shall plan and perform the engagement with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated. (Ref: Para. A19–A22)
23. The practitioner shall exercise professional judgment in conducting a review engagement. (Ref: Para. A23–A27)

Engagement Level Quality Control

24. The engagement partner shall possess competencies in assurance skills and techniques, and expertise in financial reporting.
25. The engagement partner shall take responsibility for: (Ref: Para. A28-A31)
 - (a) The overall quality of each review engagement to which that partner is assigned:
 - (b) The direction, supervision, planning and performance of the review engagement in compliance with professional standards and applicable legal and regulatory requirements; (Ref: Para. A32)
 - (c) The practitioner's report being appropriate in the circumstances; and
 - (d) The engagement being performed in accordance with the firm's quality control policies and procedures applicable to review engagements, specifically:
 - (i) Being satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and engagements have been followed, including considering whether there is information that would lead the engagement partner to conclude that management lacks integrity, and that conclusions reached in this regard are appropriate; (Ref: Para. A33–A34)

- (ii) Being alert for indications of non-compliance by members of the engagement team with relevant ethical requirements, and determining the appropriate action if matters come to the engagement partner's attention indicating that members of the engagement team have not complied with relevant ethical requirements;
- (iii) Being satisfied that the engagement team collectively has the appropriate competence and capabilities, including assurance skills and techniques and expertise in financial reporting, to:
 - a. Perform the review engagement in accordance with professional standards and applicable legal and regulatory requirements; and
 - b. Enable a report that is appropriate in the circumstances to be issued;
- (iv) Taking responsibility for appropriate engagement documentation being maintained.

Acceptance and Continuance of Client Relationships and Review Engagements

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

Compliance with Relevant Ethical Requirements

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

Monitoring

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

Acceptance and Continuance of Client Relationships and Review Engagements

Factors Affecting Acceptance and Continuance of Client Relationships and Review Engagements

29. Unless required by law or regulation, the practitioner shall not accept a review engagement if:
(Ref: Para. A35–A37)
- (a) The practitioner is unable to identify the purpose for the review engagement and the intended users of the financial statements, or is not satisfied that there is a rational purpose for the engagement or that a review engagement would be appropriate in the circumstances; (Ref: Para. A38–A41)

- (b) The practitioner has reason to believe that relevant ethical requirements, including independence, will not be satisfied;
- (c) The practitioner's preliminary understanding of the engagement circumstances indicates that information needed to perform the review engagement is likely to be unavailable or unreliable; (Ref: Para. A42)
- (d) The practitioner has cause to doubt management's integrity such that it is likely to affect proper performance of the review; or (Ref: Para. A37(b))
- (e) Management or those charged with governance impose a limitation on the scope of the practitioner's work in the terms of a proposed review engagement such that the practitioner believes the limitation will result in the practitioner disclaiming a conclusion on the financial statements.

Preconditions for Accepting a Review Engagement

30. Prior to accepting a review engagement, the practitioner shall: (Ref: Para. A43)
- (a) Determine whether the financial reporting framework applied in the preparation of the financial statements is acceptable; and (Ref: Para. A44–A50)
 - (b) Obtain the agreement of management that it acknowledges and understands its responsibilities: (Ref: Para. A51–A54)
 - (i) For preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation;
 - (ii) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
 - (iii) To provide the practitioner with:
 - a. Access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. Additional information that the practitioner may request from management for the purpose of the review; and
 - c. Unrestricted access to persons within the entity from whom the practitioner determines it necessary to obtain evidence
31. If the practitioner is not satisfied as to any of the matters set out above as preconditions for accepting a review engagement, the practitioner, the practitioner shall discuss the matter with management or those charged with governance. If changes cannot be made to satisfy the practitioner as to those matters, the practitioner shall not accept the proposed engagement unless required by law or regulation to do so. However, an engagement conducted under such circumstances does not comply with this ISRE. Accordingly, the practitioner shall not include any reference within the practitioner's report to the review having been conducted in accordance with this ISRE.

32. If it is discovered after the engagement has been accepted that the practitioner is not satisfied as to any of the above preconditions, the practitioner shall discuss that with management or those charged with governance, and shall determine:
- (a) Whether the matter can be resolved;
 - (b) Whether it is appropriate to continue with the engagement; and
 - (c) Whether and, if so, how to communicate the matter in the practitioner's report.

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

33. The practitioner's report issued for the review engagement shall refer to with this ISRE only if the report complies with the requirements of paragraph 84.
34. In some cases when the review is performed pursuant to applicable law or regulation of a jurisdiction, the relevant law or regulation may prescribe the layout or wording of the practitioner's report in a form or in terms that are significantly different from the requirements of this ISRE. In those circumstances the practitioner shall evaluate whether users might misunderstand the assurance obtained from the review of the financial statements and, if so, whether additional explanation in the practitioner's report can mitigate possible misunderstanding. (Ref: Para. A55)
35. If the practitioner concludes that additional explanation in the practitioner's report cannot mitigate possible misunderstanding, the practitioner shall not accept the review engagement unless required by law or regulation to do so. A review conducted in accordance with such law or regulation does not comply with this ISRE. Accordingly, the practitioner shall not include any reference within the practitioner's report to the review having been conducted in accordance with this ISRE. (Ref: Para. A150)

Agreeing the Terms of Engagement

36. The practitioner shall agree the terms of the engagement with management or those charged with governance, as appropriate, prior to performing the engagement.
37. The agreed terms of engagement shall be recorded in an engagement letter or other suitable form of written agreement, and shall include: (Ref: Para. A56–A60)
- (a) The intended use and distribution of the financial statements, and any restrictions on use or distribution where applicable;
 - (b) Identification of the applicable financial reporting framework;
 - (c) The objective and scope of the review engagement;
 - (d) The responsibilities of the practitioner;
 - (e) The responsibilities of management, including those in paragraph 30(b); (Ref: Para. A49–A53, A59)
 - (f) A statement that the engagement is not an audit, and that the practitioner will not express an audit opinion on the financial statements; and
 - (g) Reference to the expected form and content of the report to be issued by the practitioner, and a

statement that there may be circumstances in which the report may differ from its expected form and content.

Recurring Engagements

38. On recurring review engagements, the practitioner shall evaluate whether circumstances, including changes in the engagement acceptance considerations, require the terms of engagement to be revised and whether there is a need to remind management or those charged with governance, as appropriate, of the existing terms of engagement. (Ref: Para. A61)

Acceptance of a Change in the Terms of the Review Engagement

39. The practitioner shall not agree to a change in the terms of the engagement where there is no reasonable justification for doing so. (Ref: Para. A62–A64)
40. If, prior to completing the review engagement, the practitioner is requested to change the engagement to an engagement for which no assurance is obtained, the practitioner shall determine whether there is reasonable justification for doing so. (Ref: Para. A65–A66)
41. If the terms of engagement are changed during the course of the engagement, the practitioner and management or those charged with governance, as appropriate, shall agree on and record the new terms of the engagement in an engagement letter or other suitable form of written agreement.

Communication with Management and Those Charged with Governance

42. The practitioner shall communicate with management or those charged with governance, as appropriate, on a timely basis during the course of the review engagement, all matters concerning the review engagement that, in the practitioner's professional judgment, are of sufficient importance to merit the attention of management or those charged with governance, as appropriate. (Ref: Para. A67–A73)

Performing the Engagement

Materiality in a Review of Financial Statements

43. The practitioner shall determine materiality for the financial statements as a whole, and apply this materiality in designing the procedures and in evaluating the results obtained from those procedures. (Ref: Para. A74–A77)
44. The practitioner shall revise materiality for the financial statements as a whole in the event of becoming aware of information during the review that would have caused the practitioner to have determined a different amount initially. (Ref: Para. A78)

The Practitioner's Understanding

45. The practitioner shall obtain an understanding of: (Ref: Para. A79–A84)
- (a) The entity and its environment, including the entity's accounting system and accounting records relevant to the review; and
 - (b) The applicable financial reporting framework, including its application in the industry in which

the entity operates;

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

Designing and Performing Procedures

46. The practitioner shall design and perform inquiry and analytical procedures to address all material items in the financial statements, including disclosures, and to focus on addressing areas in the financial statements where material misstatements are likely to arise. (Ref: Para. A85–A88)
47. The practitioner's inquiries of management and others within the entity, as appropriate, shall include: (Ref: Para. A89–A93)
 - (a) The significant accounting policies used, and their application by management in preparing and presenting the financial statements;
 - (b) The development of significant accounting estimates required under the applicable financial reporting framework;
 - (c) The identification of related parties and related party transactions;
 - (d) Whether there are significant, unusual or complex transactions, events or matters that have affected or may affect the entity's financial statements, including:
 - (i) Significant changes in the entity's business activities or operations;
 - (ii) Significant changes to the terms of contracts that materially affect the entity's financial statements, including terms of finance and debt contracts or covenants;
 - (iii) Significant journal entries or other adjustments to the financial statements;
 - (iv) Significant transactions occurring or recognized near the end of the reporting period;
 - (v) The status of any uncorrected misstatements identified during previous engagements ; and
 - (vi) Effects or possible implications for the entity of transactions or relationships with related parties;
 - (e) The existence of any actual, suspected or alleged:
 - (i) Fraud or illegal acts affecting the entity, and
 - (ii) Non-compliance with provisions of laws and regulations that are generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements, such as tax and pension laws and regulations;
 - (f) 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;
 - (g) 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;

- (h) Whether there are any material commitments, contractual obligations or contingencies that have affected or may affect the entity's financial statements, including disclosures; and
 - (i) Whether the entity has undertaken any material non-monetary transactions or transactions for no consideration in the financial reporting period under consideration.
48. In designing analytical procedures, the practitioner shall consider whether the data from the entity's accounting system and accounting records are adequate for the purpose of performing the analytical procedures. (Ref: Para. A94–A97)

Procedures Addressing Specific Circumstances

Related parties

49. During the review, the practitioner shall remain alert for arrangements or information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the practitioner.
50. If the practitioner identifies significant transactions outside the entity's normal course of business in the course of performing the review, the practitioner shall inquire of management about:
- (a) The nature of those transactions;
 - (b) Whether related parties could be involved; and
 - (c) The business rationale (or lack thereof) of those transactions.

Fraud and non-compliance with laws or regulations

51. When there is an indication that fraud or non-compliance with laws or regulations, or suspected fraud or non-compliance with laws or regulations, has occurred in the entity, the practitioner shall:
- (a) Communicate that matter to the appropriate level of senior management or those charged with governance as appropriate;
 - (b) Request management's assessment of the effect(s), if any, on the financial statements;
 - (c) Consider the effect, if any, of management's assessment of the effects of fraud or non-compliance with laws or regulations communicated to the practitioner on the practitioner's conclusion on the financial statements and on the practitioner's report; and
 - (d) Determine whether there is a responsibility to report the occurrence or suspicion of fraud or illegal acts to a party outside the entity. (Ref: Para. A98)

Going concern

52. A review of financial statements includes consideration of the entity's ability to continue as a going concern. If, during the performance of the review, the practitioner becomes aware of events or conditions that may cast significant doubt about the entity's ability to continue as a going concern, the practitioner shall: (Ref: Para. A99)
- (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) Evaluate the results of those inquiries, to consider whether management's responses provide a sufficient basis to:
 - (i) Continue to present the financial statements on the going concern basis if the applicable financial reporting framework includes the assumption of an entity's continuance as a going concern; or
 - (ii) Conclude whether the financial statements are materially misstated, or are otherwise misleading regarding the entity's ability to continue as a going concern.
- 53. The practitioner shall consider whether management's assessment includes all relevant information of which the practitioner is aware as a result of the review.
- 54. In considering management's assessment of the entity's ability to continue as a going concern, the practitioner shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation where a longer period is specified. If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the financial statements being reviewed, the practitioner shall request management to extend its assessment period to at least twelve months from that date.

Use of work performed by others

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

Reconciling the Financial Statements to the Underlying Accounting Records

- 56. The practitioner shall obtain evidence that the financial statements agree with, or reconcile to, the entity's underlying accounting records. (Ref: Para. A100)

Evaluating Evidence Obtained from Procedures Performed

- 57. The practitioner shall evaluate the sufficiency and appropriateness of the evidence obtained from the inquiry and analytical procedures performed, and from the procedures performed addressing specific circumstances. If the practitioner considers it necessary in the circumstances, the practitioner shall perform further procedures, as appropriate, to obtain sufficient appropriate evidence in order to be able to form a conclusion on the financial statements. (Ref: Para. A87, A101–A102)

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

- 58. If the practitioner becomes aware of a matter(s) that causes the practitioner to believe the

financial statements may be materially misstated, the practitioner shall design and perform additional procedures sufficient to enable the practitioner to: (Ref: Para. A87 A103–A107)

- (a) Conclude that the matter(s) is not likely to cause the financial statements as a whole to be materially misstated; or
 - (b) Determine that the matter(s) causes the financial statements as a whole to be materially misstated.
59. The practitioner shall evaluate the results obtained from the additional procedures performed to determine the effect on the practitioner's report. (Ref: Para. A108)

Written Representations

60. The practitioner shall request management to provide a written representation that management has fulfilled its responsibilities described in the agreed terms of engagement. The written representation shall include that: (Ref: Para. A109–A110)

- (a) Management has fulfilled its responsibility for the preparation of financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, and has provided the practitioner with all relevant information and access to information as agreed in the terms of the engagement; and
- (b) All transactions have been recorded and are reflected in the financial statements.

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

61. The practitioner shall also request management's written representations that management has disclosed to the practitioner: (Ref: Para. A110)

- (a) The identity of the entity's related parties and all the related party relationships and transactions of which management is aware;
- (b) Significant facts relating to any frauds or suspected frauds known to management that may have affected the entity;
- (c) Known actual or possible non-compliance with laws and regulations for which the effects of non-compliance affect the entity's financial statements;
- (d) All information relevant to use of the going concern assumption in the financial statements; and
- (e) That all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure, have been adjusted or disclosed. .

62. If, in relation to the written representations required in paragraphs 60 and 61 above:

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

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

then the practitioner shall discuss the matter with management and those charged with governance, as appropriate, including the implications for the practitioner's report. If management does not provide the required representations the practitioner shall:

- (i) Disclaim a conclusion on the financial statements; or
- (ii) Where appropriate, withdraw from the engagement, if withdrawal is possible under applicable law or regulation.

Date of and Period(s) Covered by Written Representations

63. 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

64. If the practitioner becomes aware of 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, the practitioner shall request management to correct those misstatements.
65. 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 the report, the practitioner shall:
- (a) Discuss the matter with management or those charged with governance, as appropriate;
 - (b) Determine whether the financial statements need amendment; and
 - (c) If so, inquire how management intends to address the matter in the financial statements.
66. If management does not amend the financial statements in circumstances where the practitioner believes they need to be amended, and the practitioner's report has already been provided to the entity, the practitioner shall notify management and those charged with governance not to issue the financial statements to third parties before the necessary amendments have been made. If the financial statements are nevertheless subsequently issued without the necessary amendments, the practitioner shall take appropriate action, to seek to prevent reliance on the practitioner's report.

Forming the Practitioner's Conclusion on the Financial Statements

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

67. In forming the conclusion on the financial statements, the practitioner shall:
- (a) Evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework; (Ref: Para. A111–A113)

- (b) Consider whether, in the context of the requirements of the applicable financial reporting framework and the results of procedures performed,:
 - (i) The terminology used in the financial statements, including the title of each financial statement, is appropriate;
 - (ii) The financial statements adequately disclose the significant accounting policies selected and applied;
 - (iii) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
 - (iv) Accounting estimates made by management appear reasonable;
 - (v) The information presented in the financial statements appears relevant, reliable, comparable, and understandable; and
 - (vi) The financial statements provide adequate disclosures to enable the intended users to understand the effects of material transactions and events on the information conveyed in the financial statements. (Ref: Para. A114–A117)
- 68. The practitioner shall consider the impact of:
 - (a) Uncorrected misstatements identified during the review, and in the previous year's review of the entity's financial statements, on the financial statements as a whole; and
 - (b) Qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. (Ref: Para. A118–A119)
- 69. If the financial statements are prepared using a fair presentation framework, the practitioner shall consider whether anything has come to the practitioner's attention that causes the practitioner to believe that the financial statements do not present fairly, in all material respects, ... (or do not give a true and fair view ..., as appropriate), in accordance with the applicable financial reporting framework. The practitioner's consideration shall include:
 - (a) The overall presentation, structure and content of the financial statements in accordance with the applicable framework; and
 - (b) Whether the financial statements, including the related notes, appear to represent the underlying transactions and events in a manner that achieves fair presentation or gives a true and fair view, as appropriate, in the context of the financial statements as a whole.
- 70. If the practitioner is not able to obtain sufficient appropriate evidence in order to form a conclusion on the financial statements, the practitioner shall: (Ref: Para. A120–A124)
 - (a) Discuss with management and those charged with governance, as appropriate, the effects such limitations have on the scope of the review; and
 - (b) Determine the effects of such limitations on the practitioner's report.

Form of the Conclusion

Unmodified Conclusion

- 71. The practitioner shall express an unmodified conclusion in the practitioner's report on the

financial statements as a whole when the practitioner concludes, based on the evidence obtained, that nothing has come to the practitioner's attention that causes the practitioner to believe:

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

Modified Conclusion

- 72. The practitioner shall express a modified conclusion in the practitioner's report on the financial statements as a whole when:
 - (a) The practitioner determines that the financial statements are materially misstated; or
 - (b) The practitioner is unable to obtain sufficient appropriate evidence in relation to one or more specific items in the financial statements that are material in relation to the financial statements as a whole.
- 73. If the financial statements are prepared using a fair presentation framework, the practitioner shall express a modified conclusion on the financial statements if:
 - (a) The practitioner determines that the financial statements do not present fairly, in all material respects ... (or do not give a true and fair view ..., as appropriate), in accordance with the applicable financial reporting framework; or
 - (b) The practitioner is unable to obtain sufficient appropriate evidence to form a conclusion about whether anything has come to the practitioner's attention that causes the practitioner to believe that the financial statements do not present fairly, in all material respects ... (or that they do not give a true and fair view ..., as appropriate), in accordance with the applicable financial reporting framework.
- 74. If the practitioner determines that the financial statements are materially misstated the practitioner shall express :
 - (a) A qualified conclusion, when the practitioner concludes that the effects of the matter(s) giving rise to the modification are material, but not pervasive to the financial statements; or
 - (b) An adverse conclusion, when the effects of the matter(s) giving rise to the modification are both material and pervasive to the financial statements; or
- 75. If the practitioner is unable to form a conclusion on the financial statements due to inability to obtain sufficient appropriate evidence, the practitioner shall:
 - (a) Express a qualified conclusion if the practitioner concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive; or

- (b) Disclaim a conclusion if the practitioner concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.
76. When the practitioner modifies the conclusion expressed on the financial statements, the practitioner shall:
- (a) Use the heading “Qualified Conclusion,” “Adverse Conclusion” or “Disclaimer of Conclusion,” as appropriate, for the conclusion paragraph in the practitioner’s report; and
 - (b) Provide a description of the matter giving rise to the modification, under an appropriate heading, (for example, “Basis for Qualified Conclusion”, “Basis for Adverse Conclusion” or “Basis for Disclaimer of Conclusion,” as appropriate) in a separate paragraph in the practitioner’s report immediately before the conclusion paragraph (referred to as the basis for conclusion paragraph).

Qualified conclusions

77. When the practitioner expresses a qualified conclusion on the financial statements as a whole due to:
- (a) Having determined that the financial statements are materially misstated, the practitioner shall state in the conclusion paragraph that, based on the review, except for the effects of the matter(s) described in the basis for conclusion paragraph, nothing has come to the practitioner’s attention that causes the practitioner to believe:
 - (i) If the financial statements are prepared using a compliance framework, that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework; or
 - (ii) If the financial statements are prepared using a fair presentation framework, that the financial statements do not present fairly, in all material respects ... (or do not give a true and fair view ..., as appropriate), in accordance with the applicable financial reporting framework.
 - (b) Inability to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements, the practitioner shall use the corresponding phrase “except for the possible effects of the matter(s) ...” for the qualified conclusion.
78. In the basis for conclusion paragraph, in relation to matter(s) giving rise to the qualified conclusion:
- (a) If the qualification arises from a material misstatement in the financial statements, the practitioner shall:
 - (i) Describe and quantify the financial effects of the misstatement if the material misstatement relates to specific amounts in the financial statements (including quantitative disclosures), unless impracticable, in which case the practitioner shall so state;
 - (ii) Explain how disclosures are misstated if the material misstatement relates to narrative disclosures; or

- (iii) Describe the nature of omitted information if the material misstatement relates to the non-disclosure of information required to be disclosed. Unless prohibited by law or regulation, the practitioner shall include the omitted disclosures where practicable to do so; and
- (b) If the qualification arises from inability to obtain sufficient appropriate evidence, the practitioner shall include the reasons for that inability.

Adverse conclusions

- 79. When the practitioner expresses an adverse conclusion on the financial statements, the practitioner shall state in the conclusion paragraph that, because of the significance of the matter(s) described in the basis for conclusion paragraph:
 - (a) If the financial statements are prepared using a compliance framework, the financial statements are not prepared in accordance with the applicable financial reporting framework; or
 - (b) If the financial statements are prepared using a fair presentation framework, the financial statements do not present fairly, (or do not give a true and fair view as appropriate), in accordance with the applicable financial reporting framework.
- 80. In the basis for conclusion paragraph, in relation to material misstatements that give rise to the adverse conclusion, the practitioner shall:
 - (a) Describe and quantify the financial effects of the misstatement if the material misstatement relates to specific amounts in the financial statements (including quantitative disclosures), unless impracticable, in which the practitioner shall so state;
 - (b) Explain how disclosures are misstated if the material misstatement relates to narrative disclosures; or
 - (c) Describe the nature of omitted information if the material misstatement relates to the non-disclosure of information required to be disclosed. Unless prohibited by law or regulation, the practitioner shall include the omitted disclosures where practicable to do so.

Disclaiming a conclusion

- 81. The practitioner shall disclaim a conclusion on the financial statements when the practitioner:
 - (a) Is unable to form a conclusion on the financial statements due to inability to obtain sufficient appropriate evidence; and
 - (b) Considers that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

In such circumstances, due to the significance of those limitations on the engagement, the practitioner is unable to form a conclusion on the financial statements-
- 82. When disclaiming a conclusion on the financial statements the practitioner shall state in the conclusion paragraph that:

- (a) Due to the significance of the matter(s) described in the basis for conclusion paragraph, the practitioner is unable to form a conclusion on the financial statements; and
- (b) Accordingly, the practitioner does not express a conclusion on the financial statements.

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

83. If the practitioner is unable to obtain sufficient appropriate evidence to form a conclusion on the financial statements because of a limitation on the scope of the review imposed by management after the practitioner has accepted the engagement, the practitioner shall determine the implications of the scope limitation, and the possible effects on the financial statements of undetected misstatements, if any. The practitioner shall:
- (a) Qualify the conclusion under paragraphs 75(a) and 77(b), if the possible effects are material but not pervasive; or
 - (b) If the possible effects are material and pervasive, so that a qualified conclusion under subparagraph (a) above would not adequately communicate the gravity of the situation, either:
 - (i) Withdraw from the review, if withdrawal is possible under applicable law and regulation; (Ref: Para. A122–A124) or
 - (ii) Disclaim a conclusion on the financial statements under paragraphs 75(b) and 81–82, if withdrawal is not possible.

The Practitioner's Report

84. The practitioner's report for the review engagement shall be in writing, and shall contain the following elements: (Ref: Para. A125–A128, A150, A152)
- (a) A title, which shall clearly indicate that it is the report of an independent practitioner for a review engagement;
 - (b) The addressee(s), as required by the circumstances of the engagement;
 - (c) An introductory paragraph that:
 - (i) Identifies the financial statements reviewed, including identification of the title of each of the statements contained in the set of financial statements and the date and period covered by each financial statement;
 - (ii) Refers to the summary of significant accounting policies and other explanatory information; and
 - (iii) States that the financial statements have been reviewed;
 - (d) A description of the responsibility of management for the preparation of the financial statements, including an explanation that management is responsible for: (Ref: Para. A129–A132)
 - (i) Their preparation in accordance with the applicable financial reporting framework including, where relevant, their fair presentation;

- (ii) Such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- (e) If the financial statements are special purpose financial statements:
 - (i) A description of the purpose for which the financial statements are prepared and, if necessary, the intended users, or reference to a note in the special purpose financial statements that contains that information; and
 - (ii) If management has a choice of financial reporting frameworks in the preparation of such financial statements, a reference within the explanation of management's responsibility for the financial statements to management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances;
- (f) A description of the practitioner's responsibility to express a conclusion on the financial statements based on the review, and of the scope of a review of the financial statements, including: (Ref: Para. A133)
 - (i) A reference to this ISRE and, where relevant, applicable law or regulation; (Ref: Para. A134, A150)
 - (ii) A description of a review of financial statements in accordance with paragraph 85; and (Ref: Para. A135)
 - (iii) A statement of the practitioner's belief that the practitioner has obtained sufficient appropriate evidence as the basis for the conclusion expressed; or
 - a. If the practitioner's conclusion is qualified or adverse, that the practitioner has obtained sufficient appropriate evidence as the basis for the practitioner's modified conclusion; or
 - b. If the practitioner disclaims a conclusion, the following statement: "Our responsibility is to express a conclusion on the financial statements based on performing the review in accordance with ISRE 2400. Due to the matter(s) described in the Basis for Disclaimer of Conclusion paragraph, however, we are not able to form a conclusion;"
- (g) A paragraph under the heading "Conclusion" that contains the practitioner's conclusion on the financial statements as a whole in accordance with paragraph 71, and a reference to the applicable financial reporting framework used to prepare the financial statements, including identification of the jurisdiction of origin of the financial reporting framework that is not International Financial Reporting Standards or International Financial Reporting Standards for Small and Medium Entities issued by the International Accounting Standards Board, or International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board; (Ref: Para. A136–A138)
- (h) When the practitioner's conclusion on the financial statements is modified in accordance with paragraphs 72–76:
 - (i) A paragraph under the appropriate heading that contains the practitioner's modified

conclusion; and

- (ii) A paragraph, under an appropriate heading, that provides a description of the matter(s) giving rise to the modification.
- (i) A reference to the practitioner's obligation under this ISRE to comply with relevant ethical requirements.
- (j) The date of the practitioner's report; (Ref: Para. A146–A149)
- (k) The practitioner's signature; and (Ref: Para. A140)
- (l) The location in the jurisdiction where the practitioner practices.

Communication of the Nature of a Review of Financial Statements

85. The practitioner shall include in the report a description of the nature of a review of financial statements and its limitations, and shall state that: (Ref: Para. A135)
- (a) A review engagement under this ISRE is a limited assurance engagement;
 - (b) The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity involved in financial and accounting matters and applying analytical procedures, and evaluates the evidence obtained; and
 - (c) The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (ISAs), and, accordingly, the practitioner does not express an audit opinion on the financial statements.

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

Emphasis of Matter Paragraphs

86. The practitioner may consider it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the practitioner's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. In such cases, the practitioner shall include an Emphasis of Matter paragraph in the practitioner's report, provided the practitioner has obtained sufficient appropriate evidence to conclude that the matter is not likely to be materially misstated as presented in the financial statements. Such paragraph shall refer only to information presented or disclosed in the financial statements.
87. The practitioner's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the practitioner's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose. (Ref: Para. A141–A142)
88. The practitioner shall include an Emphasis of Matter paragraph immediately after the paragraph that contains the practitioner's conclusion on the financial statements under the heading "Emphasis of Matter," or other appropriate heading.

Other Matter Paragraphs

89. If the practitioner considers it necessary to communicate a matter other than those that are

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

Other Reporting Responsibilities

90. A practitioner may be requested to address other reporting responsibilities in the practitioner's report on the financial statements that are in addition to the practitioner's responsibilities under this ISRE to report on the financial statements. In such situations, those other reporting responsibilities shall be addressed by the practitioner in a separate section in the practitioner's report headed "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section, following the section of the report headed "Report on the Financial Statements." (Ref: Para. A143–A145)

Date of the Practitioner's Report

91. The practitioner shall date the report no earlier than the date on which the practitioner has obtained sufficient appropriate evidence as the basis for the practitioner's conclusion on the financial statements, including being satisfied that: (Ref: Para. A146–A149)
- (a) All the statements that comprise the financial statements under the applicable financial reporting framework, including the related notes where applicable, have been prepared; and
 - (b) Those with the recognized authority have asserted that they have taken responsibility for those financial statements.

Documentation

92. The preparation of documentation for the review provides evidence that the review was performed in accordance with this ISRE, and legal and regulatory requirements where relevant, and a sufficient and appropriate record of the basis for the practitioner's report. The practitioner shall document the following aspects of the engagement in a timely manner, sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand:
- (a) The nature, timing, and extent of the procedures performed to comply with this ISRE and applicable legal and regulatory requirements;
 - (b) Results obtained from the procedures, and the practitioner's conclusions formed on the basis of those results; and
 - (c) Significant matters arising during the engagement, the practitioner's conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
93. In documenting the nature, timing and extent of procedures performed as required in this ISRE, the practitioner shall record:
- (a) Who performed the work and the date such work was completed; and
 - (b) Who reviewed the work performed for the purpose of quality control for the engagement, and the date and extent of the review.

94. The practitioner shall also document discussions with management, those charged with governance, and others as relevant to the performance of the review of significant matters arising during the engagement, including the nature of those matters.
95. If, in the course of the engagement, the practitioner identified information that is inconsistent with the practitioner's findings regarding significant matters affecting the financial statements, the practitioner shall document how the inconsistency was addressed.

Application and Other Explanatory Material

Scope of this ISRE (Ref: Para. 1–2)

- A1. In performing a review of financial statements, the practitioner may be required to comply with legal or regulatory requirements in addition to those contained in this ISRE. This ISRE does not address the responsibilities of the practitioner that may exist in law or regulation. Those responsibilities may differ from those established in this ISRE. Accordingly, while the practitioner may find aspects of this ISRE helpful in these circumstances, it is the responsibility of the practitioner to ensure compliance with all relevant legal, regulatory and professional obligations.
- A2. Review engagements in accordance with this ISRE may be requested by entities that are part of a group of entities, the group financial information of which is required to be audited, but where the financial information of certain components of the group is reviewed on account of their relative significance in the overall context of the group.⁷ A review engagement performed in accordance with this ISRE for such purposes may be accompanied by a request to undertake additional work or procedures as needed to accommodate the circumstances of the group audit engagement.

Relationship with ISQC 1 (Ref: Para. 4)

- A3. ISQC 1 deals with the firm's responsibilities to establish and maintain its system of quality control for assurance engagements, including review engagements. Those responsibilities are directed at establishing:
 - The firm's quality control system; and
 - The firm's related policies designed to achieve the objective of the quality control system and its procedures to implement and monitor compliance with those policies.
- A4. Under ISQC 1, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:
 - (a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and

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

- (b) Reports issued by the firm or engagement partners are appropriate in the circumstances.⁸
- A5. A jurisdiction that has not adopted ISQC 1 in relation to review engagements may set out requirements for quality control in firms performing such engagements. The provisions of this ISRE regarding quality control at the engagement level are premised on the basis that quality control requirements adopted are at least as demanding as those of ISQC 1, including an obligation to establish a system of quality control that includes policies and procedures that address each of the following elements:
- Leadership responsibilities for quality within the firm.
 - Relevant ethical requirements.
 - Acceptance and continuance of client relationships and specific engagements.
 - Human resources.
 - Engagement performance.
 - Monitoring.

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

- A6. Reviews of financial statements may be performed for a wide range of entities that vary by type or size, or by the level of complexity in their financial reporting. In some countries or jurisdictions, the review of financial statements of certain types of entity may also be the subject of domestic laws or regulations and related reporting requirements.
- A7. Reviews may be performed in a variety of circumstances. For example, they may be required for, or requested by, entities that are exempt from requirements specified in law or regulation for mandatory audit of entities of a certain type or class. Reviews may also be requested on a voluntary basis, such as in connection with financial reporting undertaken for arrangements under the terms of a private contract, or to support funding arrangements.
- A8. In a review engagement the practitioner's conclusion on the financial statements, expressed in accordance with the requirements of this ISRE, is based on the practitioner having obtained limited assurance as the basis for the conclusion. The practitioner performs procedures, primarily consisting of inquiry and analytical procedures, and evaluates the evidence obtained for the purpose of forming the conclusion. The practitioner's report includes a description of the nature of a review engagement as context for the readers of the report to be able to understand the conclusion expressed on the financial statements.

Objectives (Ref: Para. 15)

- A9. This ISRE requires the practitioner to disclaim a conclusion on the financial statements if:
- (a) The practitioner issues a report, or is required to issue a report for the engagement; and
 - (b) The practitioner is unable to form a conclusion on the financial statements due to inability to obtain sufficient appropriate evidence, and the practitioner concludes that the possible

⁸ ISQC 1, paragraph 11

effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. .

A10. The situation of being unable to obtain sufficient appropriate evidence in a review engagement (referred to as a scope limitation) may arise from:

- (a) Circumstances beyond the control of the entity;
- (b) Circumstances relating to the nature or timing of the practitioner's work; or
- (c) Limitations imposed by management or those charged with governance of the entity.

A11. This ISRE sets out requirements and guidance for the practitioner when the practitioner encounters a scope limitation, either prior to accepting a review engagement, or during the engagement.

Definitions (Ref: Para. 16-17)

Use of the Terms "Management" and "Those Charged with Governance"

A12. The respective responsibilities of management and those charged with governance will differ between jurisdictions, and between entities of various types. These differences affect the way the practitioner applies the requirements of this ISRE in relation to management or those charged with governance. Accordingly, the phrase 'management and, where appropriate, those charged with governance' used in various places throughout this ISRE is intended to alert the practitioner to the fact that different entity environments may have different management governance structures and arrangements.

A13. Various responsibilities relating to preparation of financial information and external financial reporting will fall to either management or those charged with governance according to factors such as:

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

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

Assurance Skill and Techniques (Ref: Para. 17(b))

A14. Assurance skills and techniques include:

- Application of professional skepticism and professional judgment to planning and performing an assurance engagement, including obtaining and evaluating evidence;
- Understanding information systems and the role and limitations of internal control;
- Linking the consideration of materiality and engagement risks to the nature, timing and extent of procedures;
- Applying procedures as appropriate to the engagement, which may include inquiry, inspection, re-calculation, re-performance, observation, confirmation, and analytical procedures;
- Systematic documentation practices; and,
- Application of skills and practices relevant for writing reports for assurance engagements.

Limited Assurance (Ref: Para. 17(f))

A15. In a review engagement, the practitioner obtains sufficient appropriate evidence by performing procedures, primarily consisting of inquiry and analytical procedures, to reduce engagement risk to a level that is acceptable in the engagement circumstances as the basis for expressing a conclusion on the financial statements in accordance with this ISRE.

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

A16. This ISRE does not override laws and regulations that govern a review of financial statements. In the event that those laws and regulations differ from the requirements of this ISRE, a review conducted only in accordance with laws and regulations will not automatically comply with this ISRE.

Ethical Requirements (Ref: Para. 21)

A17. Part A of the IESBA Code establishes the fundamental principles of professional ethics practitioners must comply with, and provides a conceptual framework for applying those principles. The fundamental principles are:

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality; and
- (e) Professional behavior.

Part B of the IESBA Code illustrates how the conceptual framework is to be applied in specific situations. In complying with the IESBA Code, threats to the practitioner's compliance with relevant ethical requirements are required to be identified and appropriately addressed.

- A18. In the case of an engagement to review financial statements, it is required by the IESBA Code that the practitioner be independent of an entity whose financial statements are reviewed. The IESBA Code describes independence as comprising both independence of mind and independence in appearance. The practitioner's independence from the entity safeguards the practitioner's ability to form a conclusion on the financial statements based on the review performed without being affected by influences that might compromise the practitioner's conclusion. Independence enhances the practitioner's ability to act with integrity, to be objective and to maintain an attitude of professional skepticism.

Professional Skepticism and Professional Judgment

Professional Skepticism (Ref: Para. 22)

- A19. Professional skepticism is necessary for the critical assessment of evidence in a review. This includes questioning inconsistencies and investigating contradictory evidence, and questioning the reliability of responses to inquiries and other information obtained from management and those charged with governance. It also includes consideration of the sufficiency and appropriateness of evidence obtained in the light of the engagement circumstances.
- A20. Professional skepticism includes being alert to, for example:
- Evidence that is inconsistent with other evidence obtained.
 - Information that calls into question the reliability of documents and responses to inquiries to be used as evidence.
 - Conditions that may indicate possible fraud.
 - Any other circumstances that suggest the need for additional procedures.
- A21. Maintaining professional skepticism throughout the review is necessary if the practitioner is to reduce the risks of:
- Overlooking unusual circumstances.
 - Over-generalizing when drawing conclusions from evidence obtained.
 - Using inappropriate assumptions in determining the nature, timing, and extent of the procedures performed in the review, and evaluating the results thereof.
- A22. The practitioner cannot be expected to disregard past experience of the honesty and integrity of the entity's management and those charged with governance. Nevertheless, a belief that management and those charged with governance are honest and have integrity does not relieve the practitioner of the need to maintain professional skepticism or allow the practitioner to be satisfied with evidence that is inadequate for the purpose of the review.

Professional Judgment (Ref: Para. 23)

- A23. Professional judgment is essential to the proper conduct of a review engagement. This is because interpretation of relevant ethical requirements and the requirements of this ISRE, and the need for informed decisions throughout the performance of a review engagement, require the application of relevant knowledge and experience to the facts and circumstances of the engagement. Professional judgment is necessary, in particular, regarding decisions about:

- Materiality.
 - The nature, timing, and extent of procedures used to meet the requirements of this ISRE, and to gather evidence.
 - Evaluating whether the evidence obtained from the procedures performed, reduces the engagement risk to a level that is acceptable in the engagement circumstances, .
 - The consideration of management's judgments in applying the entity's applicable financial reporting framework.
 - Forming the conclusion on the financial statements based on the evidence obtained, including considering the reasonableness of the estimates made by management in preparing the financial statements.
- A24. The distinguishing feature of the professional judgment expected of the practitioner is that it is exercised by a practitioner whose training, knowledge and experience, including in the use of assurance skills and techniques, have assisted in developing the necessary competencies to achieve reasonable judgments and to make informed decisions about appropriate courses of action in undertaking a review engagement. Consultation on difficult or contentious matters during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm, assists the practitioner in making informed and reasonable judgments.
- A25. The exercise of professional judgment in individual engagements is based on the facts and circumstances that are known by the practitioner throughout the engagement, including:
- Knowledge acquired from engagements carried out for the entity's financial statements in prior periods, where applicable.
 - The practitioner's understanding of the entity and its environment, including its accounting system, and of the application of the applicable financial reporting framework in the entity's industry.
 - The extent to which the preparation and presentation of the financial statements requires the exercise of management judgment.
- A26. Professional judgment can be evaluated based on whether the judgment reached reflects a competent application of assurance and accounting principles, and is appropriate in the light of, and consistent with, the facts and circumstances that were known to the practitioner up to the date of the practitioner's report.
- A27. Professional judgment needs to be exercised throughout the review. It also needs to be appropriately documented, in accordance with the requirements of this ISRE. Professional judgment is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement, or the evidence obtained.

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

- A28. Within the context of the firm's system of quality control, engagement teams have a responsibility to implement quality control procedures applicable to the engagement, and provide the firm with relevant

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

A29. The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each review engagement, emphasize the importance to the quality of the review engagement of:

- (a) Performing work that complies with professional standards and regulatory and legal requirements.
- (b) Complying with the firm's quality control policies and procedures as applicable.
- (c) Issuing a report for the engagement that is appropriate in the circumstances
- (d) The engagement team's ability to raise concerns without fear of reprisals.

A30. Unless information provided by the firm or other parties suggests otherwise, the engagement team is entitled to rely on the firm's system of quality control. For example, the engagement team may rely on the firm's system of quality control in relation to:

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

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

A31. A deficiency in the firm's system of quality control does not necessarily indicate that a review engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the practitioner's report was not appropriate.

Assignment of Engagement Teams (Ref: Para. 25(b))

A32. When considering the appropriate competence and capabilities expected of the engagement team as a whole, the engagement partner may take into consideration such matters as the team's:

- Understanding of, and practical experience with, review engagements of a similar nature and complexity through appropriate training and participation.
- Understanding of professional standards and applicable legal and regulatory requirements.
- Technical expertise, including expertise with relevant information technology and specialized areas of accounting or assurance.
- Knowledge of relevant industries in which the client operates.
- Ability to apply professional judgment.
- Understanding of the firm's quality control policies and procedures.

Acceptance and Continuance of Client Relationships and Review Engagements (Ref: Para. 25(d)(i))

A33. ISQC 1 requires the firm to obtain information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Information that assists the engagement partner in determining whether acceptance and continuance of client relationships and review engagements is appropriate may include information concerning:

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

A34. If the engagement partner has cause to doubt management's integrity to a degree that is likely to affect proper performance of the review, it will not be appropriate under this ISRE to accept the engagement, unless required by law or regulation, as doing so may lead to the practitioner being associated with the entity's financial statements in an inappropriate manner.

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

A35. The practitioner's consideration of factors relevant to engagement continuance, and relevant ethical requirements, including independence, occurs throughout the engagement, as conditions and changes in circumstances occur. Performing initial procedures on engagement continuance and evaluation of relevant ethical requirements (including independence) at the beginning of an engagement informs the practitioner's decisions and actions prior to the performance of other significant activities for the engagement.

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

A36. Assurance engagements may only be accepted when the engagement exhibits certain characteristics⁹ that are conducive to achieving the practitioner's objectives specified for the engagement. Accordingly, this ISRE specifies certain factors that, if present, would preclude a practitioner's acceptance or continuance of a review engagement.

A37. Factors that influence the practitioner's decision not to accept a review engagement include the existence of circumstances that are not conducive to performing a review of an entity's financial statements on an effective basis. Examples of such circumstances include where, based on preliminary inquiries made prior to acceptance of an engagement:

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

⁹ *International Framework for Assurance Engagements*, paragraph 17

- (b) The practitioner has cause to doubt management's integrity, so that performing procedures that involve inquiry of management is unlikely to be effective.

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

- A38. The practitioner is required under this ISRE to obtain an understanding of the engaging party's purpose in requesting the review engagement, in light of the intended use of the financial statements and the needs of the intended users thereof.
- A39. In the absence of a rational purpose for the engagement, the practitioner may believe the engaging party intends to associate the practitioner's name with the financial statements in an inappropriate manner. The proposed review engagement may not have a rational purpose, for example, if the practitioner believes that, were an audit to be performed, it is likely that the practitioner would qualify, disclaim or express an adverse opinion on the financial statements. In that circumstance, it may not be appropriate to accept an engagement to perform a review unless required to do so by law or regulation
- A40. If the proposed engagement is for a review of special purpose financial statements, it is important that the practitioner obtain an understanding of the specific purpose for which the financial statements are prepared, and establishes the identity of the specific intended users of the financial statements, so that the practitioner can determine whether the financial reporting framework is acceptable.
- A41. When the practitioner's preliminary understanding of the engagement circumstances indicates that a review engagement would not be appropriate, the practitioner may consider recommending that another type of engagement be undertaken. Depending on the circumstances, the practitioner may, for example, believe that performance of an audit engagement would be more appropriate than a review. For example, it would not be appropriate for a practitioner to agree to perform a review engagement when an entity's business includes significant treasury operations involving complex derivatives, because it is unlikely that the types of procedures normally performed in a review engagement would be appropriate to address areas where material misstatements are likely to arise. In other cases, if the engagement circumstances preclude performance of an assurance engagement, the practitioner may recommend a compilation engagement (as long as the underlying source documents are available), or other accounting services engagement, as appropriate.

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

- A42. The existence of shortcomings or deficiencies in the entity's accounting systems may mean that performing a review would be inappropriate, because the practitioner may believe that performing primarily inquiry and analytical procedures would not reduce the engagement risk to an appropriate level in the engagement circumstances. In that situation, the practitioner may consider recommending that another type of engagement be undertaken that would be more appropriate in those circumstances. .

Preconditions for Accepting a Review Engagement

- A43. This ISRE also requires the practitioner to ascertain certain matters, upon which it is necessary for the practitioner and the entity's management to agree, and which are within the control of the entity, prior to the practitioner accepting the engagement.

The Applicable Financial Reporting Framework (Ref: Para. 30(a))

- A44. A condition for acceptance of an assurance engagement is that the criteria¹⁰ referred to in the definition of an assurance engagement are suitable and available to intended users.¹¹ For purposes of this ISRE the applicable financial reporting framework provides the criteria the practitioner uses to review the financial statements including, where relevant, their fair presentation. Some financial reporting frameworks are fair presentation frameworks, and others are compliance frameworks. The requirements of the applicable financial reporting framework determine the form and content of the financial statements, including what constitutes a complete set of financial statements.

Acceptability of the applicable financial reporting framework

- A45. Without an acceptable financial reporting framework, management does not have an appropriate basis for the preparation of the financial statements and the practitioner does not have suitable criteria for the review of the financial statements.
- A46. The practitioner's determination of the acceptability of the financial reporting framework applied in the financial statements is made in the context of the practitioner's understanding of the intended use of the financial statements.
- A47. In many cases, in the absence of any indications to the contrary, the practitioner may presume that the applicable financial reporting framework is acceptable (for example, a financial reporting framework that is prescribed by law or regulation in a jurisdiction to be used in the preparation of general purpose financial statements for certain types of entities).
- A48. Factors that are relevant to the practitioner's determination of the acceptability of the financial reporting framework to be applied in the preparation of the financial statements include:
- The nature of the entity (for example, whether it is a business enterprise, a public sector entity or a not-for-profit organization).
 - The purpose of the financial statements (for example, whether they are prepared to meet the common financial information needs of a wide range of users or the financial information needs of specific users).
 - The nature of the financial statements (for example, whether the financial statements are a complete set of financial statements or a single financial statement).
 - Whether the applicable financial reporting framework is prescribed in relevant law or regulation.
- A49. If the financial reporting framework used to prepare the financial statements is not acceptable in view of the purpose of the financial statements and management will not agree to use of a

¹⁰ *International Framework for Assurance Engagements*, paragraph 34

¹¹ *International Framework for Assurance Engagements*, paragraph 17(b)(ii)

financial reporting framework that is acceptable in the practitioner's view, the practitioner is required under this ISRE to decline the engagement.

- A50. Deficiencies in the applicable financial reporting framework that indicate that the framework is not acceptable may be encountered after the review engagement has been accepted. When use of that financial reporting framework is not prescribed by law or regulation, management may decide to adopt another framework that is acceptable. When management does so, the practitioner is required under this ISRE to agree the new terms of the review engagement with management to reflect the change in the applicable financial reporting framework.

Responsibilities of Management and Those Charged with Governance (Ref: Para. 30(b), 37(e))

- A51. The financial statements subject to review are those of the entity, prepared by management of the entity with oversight from those charged with governance. This ISRE does not impose responsibilities on management and does not override laws and regulations that govern their respective responsibilities. However, a review in accordance with this ISRE is conducted on the premise that management, and those charged with governance as appropriate, has acknowledged certain responsibilities that are fundamental to the conduct of the review. The review of the financial statements does not relieve management of its responsibilities.
- A52. As part of its responsibility for the preparation of the financial statements, management is required to exercise judgment in making accounting estimates that are reasonable in the circumstances, and to select and apply appropriate accounting policies. These judgments are made in the context of the applicable financial reporting framework.
- A53. Because of the significance of the preconditions for undertaking a review of financial statements, the practitioner is required under this ISRE to obtain the agreement of management that it understands its responsibilities before accepting a review engagement. The practitioner may obtain management's agreement either orally or in writing, however management's agreement is subsequently recorded within the written terms of the engagement.
- A54. If management, and those charged with governance where appropriate, does not or will not acknowledge its responsibilities in relation to the financial statements, it is not appropriate to accept the engagement unless law or regulation requires the practitioner to do so. In circumstances where the practitioner is required to accept the review engagement, the practitioner may need to explain to management and those charged with governance, where different, the importance of these matters and the implications for the engagement.

Additional Considerations When the Wording of the Practitioner's Report is Prescribed by Law or Regulation (Ref: Para. 34)

- A55. This ISRE requires the practitioner to not represent compliance with this ISRE unless the practitioner has complied with all the requirements of this ISRE that are relevant to the review engagement. Law or regulation may prescribe matters in relation to an engagement that would ordinarily cause the practitioner to decline the engagement were it possible to do so, for example if:
- The practitioner considers that the financial reporting framework prescribed by law or regulation is not acceptable; or

- The prescribed layout or wording of the practitioner's report is in a form or in terms that are significantly different from the requirements of this ISRE.

Under this ISRE, a review conducted in these situations does not comply with this ISRE and the practitioner cannot represent compliance with this ISRE in the report issued for the engagement. Notwithstanding that the practitioner is not permitted to represent compliance with this ISRE, the practitioner is, however, encouraged to apply this ISRE, including the reporting requirements, to the extent practicable. When appropriate to avoid misunderstanding, the practitioner may consider including a statement in the report that the review is not conducted in accordance with this ISRE.

Agreeing the Terms of Engagement

Engagement Letter or Other Form of Written Agreement (Ref: Para. 37)

A56. It is in the interests of both management and those charged with governance, and the practitioner, that the practitioner sends an engagement letter prior to performing the review engagement, to help avoid misunderstandings with respect to the review engagement by confirming such matters as:

- The objectives and scope of the engagement, including the understanding of the parties to the engagement that the review is a limited assurance engagement.
- The intended use and distribution of the financial statements, and any restrictions thereon;
- The responsibilities of management in relation to the financial statements and the review engagement;
- The extent of the practitioner's responsibilities;
- The form and content of the report to be issued in accordance with this ISRE.

Form and content of the engagement letter

A57. The form and content of the engagement letter may vary for each engagement. In addition to including the matters required by this ISRE, an engagement letter may make reference to, for example:

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

Review of components of groups of entities

A58. The auditor of a set of group financial statements may request a review of a component within a group of entities to be performed. Depending on the instructions of the group auditor, a review of the financial information of a component may be performed in accordance with this ISRE or, where the component auditor is also the auditor of the component entity's financial statements, in accordance with ISRE 2410, adapted as necessary in the circumstances of the group audit engagement. The engagement team for the audit of the group financial statements may also specify additional procedures to supplement the work done for the review performed under this ISRE.

Responsibilities of management prescribed by law or regulation (Ref: Para. 37(e))

A59. If, in the circumstances of the engagement, the practitioner concludes that it is not necessary to record certain terms of the engagement in an engagement letter, the practitioner is still required to seek the written agreement from management, and those charged with governance where appropriate, required under this ISRE that it acknowledges and understands its responsibilities set out in this ISRE. This written agreement may use the wording of the law or regulation if the law or regulation establishes responsibilities for management that are equivalent in effect to those described in this ISRE.

Illustrative Engagement Letter (Ref: Para. 37)

A60. An illustrative engagement letter for a review engagement is set out in Appendix 1 to this ISRE.

Recurring Engagements (Ref: Para. 38)

A61. The practitioner may decide not to send a new engagement letter or other written agreement each period. However, the following factors may indicate that it is appropriate to revise the terms of the review engagement or to remind management and those charged with governance, as appropriate, of the existing terms of the engagement:

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

Acceptance of a Change in the Terms of the Review Engagement

Request to Change the Terms of the Review Engagement (Ref: Para. 39)

A62. A request from the entity for the practitioner to change the terms of the review engagement may result from factors including:

- A change in circumstances affecting the need for the service.

- Misunderstanding as to the nature of a review engagement as originally requested.
 - A restriction on the scope of the review engagement, whether imposed by management or caused by other circumstances.
- A63. A change in circumstances that affects the entity's requirements or a misunderstanding concerning the nature of the service originally requested may be considered a reasonable basis for requesting a change in the review engagement.
- A64. In contrast, a change may not be considered reasonable if it appears that the change relates to information that is incorrect, incomplete or otherwise unsatisfactory. An example might be where the practitioner is unable to obtain sufficient appropriate evidence regarding receivables, and management asks for the engagement to be changed to a related services engagement to avoid a modified conclusion by the practitioner.

Request to Change the Nature of the Engagement (Ref: Para. 40)

- A65. Before agreeing to change a review engagement to another type of engagement or related service, a practitioner who was engaged to perform a review in accordance with this ISRE may need to assess, in addition to the matters referred to in this ISRE, any legal or contractual implications of the change.
- A66. If the practitioner concludes that there is reasonable justification to change the review engagement to another type of engagement or related service, the work performed in the review engagement to the date of change may be relevant to the changed engagement; however, the work required to be performed and the report to be issued would be those appropriate to the revised engagement. In order to avoid confusing the reader, the report on the other engagement or related service would not include reference to:
- (a) The original review engagement; or
 - (b) Any procedures that may have been performed in the original review engagement, except where the review engagement is changed to an engagement to perform agreed-upon procedures and thus reference to the procedures performed is a normal part of the report.

Communication with Management and Those Charged with Governance (Ref: Para. 42)

- A67. In a review engagement the practitioner's communications with management and those charged with governance take the form of:
- (a) Inquiries the practitioner makes in the course of performing the procedures for the review; and
 - (b) Other communications, in the context of having effective two-way communication in understanding matters concerning the review engagement and developing a constructive working relationship for the engagement.
- A68. The appropriate timing for communications will vary with the circumstances of the engagement. Relevant circumstances include the significance and nature of the matter and any action expected to be taken by management or those charged with governance. For example, it may be appropriate to communicate a significant difficulty encountered during the review as soon as

practicable if management or those charged with governance are able to assist the practitioner to overcome the difficulty.

- A69. Law or regulation may restrict the practitioner's communication of certain matters with those charged with governance. For example, law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act. In some circumstances, potential conflicts between the practitioner's obligations of confidentiality and obligations to communicate may be complex. In such cases, the practitioner may consider obtaining legal advice.

Communicating Significant Matters Concerning the Review

- A70. Matters to be communicated to management or those charged with governance, as appropriate, under this ISRE may include:

- The practitioner's responsibilities in the review engagement, as included in the engagement letter or other suitable form of written agreement.
- Significant findings from the review, for example:
 - The practitioner's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
 - Significant findings from the performance of procedures, including situations where the practitioner considered performance of additional procedures necessary under this ISRE. . The practitioner may need to confirm that those charged with governance have the same understanding of the facts and circumstances relevant to specific transactions or events.
 - Significant difficulties, if any, encountered during the review; for example, unavailability of expected information; unexpected inability to obtain evidence that the practitioner considers necessary for the review; or restrictions imposed on the practitioner by management. In some circumstances, such difficulties may constitute a scope limitation that, if not addressed by management or those charged with governance, may lead to modification of the practitioner's conclusion, which is a further matter required to be communicated and discussed with management or those charged with governance.

- A71. In entities where different persons are responsible for the management and the governance of an entity, management has the responsibility to communicate matters of governance interest to those charged with governance. Communication by management with those charged with governance of matters that the practitioner is required to communicate does not relieve the practitioner of the responsibility to also communicate them. Communication of these matters by management may, however, affect the form or timing of the practitioner's communication with those charged with governance.

Communication With Third Parties

- A72. In some jurisdictions the practitioner may be required by law or regulation to, for example:

- Notify a regulatory or enforcement body of certain matters communicated with those charged with governance. For example, in some jurisdictions the practitioner has a duty to report misstatements to authorities where management and those charged with governance fail to take corrective action.
 - Submit copies of certain reports prepared for those charged with governance to relevant regulatory or funding bodies or, in some cases, make such reports publicly available.
- A73. Unless required by law or regulation to provide a third party with a copy of the practitioner's written communications with those charged with governance, the practitioner may need the prior consent of management or those charged with governance before doing so.

Performing the Engagement

Materiality in a Review of Financial Statements (Ref: Para. 43)

- A74. The practitioner's consideration of materiality is made in the context of the applicable financial reporting framework. Some financial reporting frameworks discuss the concept of materiality in the context of the preparation and presentation of financial statements. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that:
- Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;
 - Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
 - Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.
- A75. If present in the applicable financial reporting framework, a discussion of the concept of materiality provides a frame of reference for the practitioner in determining materiality for the review. If not present, the above considerations provide the practitioner with a frame of reference.
- A76. The practitioner's determination of materiality is a matter of professional judgment, and is affected by the practitioner's perception of the needs of the intended users of the financial statements. In this context, it is reasonable for the practitioner to assume that users:
- Have a reasonable knowledge of business and economic activities and accounting, and a willingness to study the information in the financial statements with reasonable diligence;
 - Understand that financial statements are prepared, presented and reviewed to levels of materiality;
 - Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events; and
 - Make reasonable economic decisions on the basis of the information in the financial statements.

Further, unless the review engagement is undertaken for financial statements that are intended to meet the particular needs of specific users, the possible effect of misstatements on specific users, whose information needs may vary widely, is not ordinarily considered.

- A77. Viewed in this context, the practitioner's judgment about what is material in relation to the financial statements as a whole is the same regardless of the level of assurance obtained by a practitioner as the basis for expressing the conclusion on the financial statements.

Revising Materiality (Ref: Para. 44)

- A78. The practitioner's determination of materiality for the financial statements as a whole may need to be revised during the engagement as a result of:

- A change in the circumstances that occurred during the review (for example, a decision to dispose of a major part of the entity's business);
- New information, or a change in the practitioner's understanding of the entity and its environment as a result of performing additional procedures for the review in accordance with this ISRE (for example, if during the review it appears as though actual financial results are likely to be substantially different from the anticipated period-end financial results that were used initially to determine materiality for the financial statements as a whole).

The Practitioner's Understanding (Ref: Para. 45)

- A79. The practitioner uses professional judgment to determine the extent of the understanding of the entity and its environment required to perform the review of the entity's financial statements in accordance with this ISRE. The practitioner's primary consideration is whether the understanding obtained is sufficient to meet the practitioner's objectives for the engagement. The breadth and depth of the overall understanding that the practitioner obtains is less than that possessed by management.
- A80. The understanding establishes a frame of reference within which the practitioner plans and performs the review engagement, and exercises professional judgment throughout the engagement. Specifically, the understanding needs to be sufficient for the practitioner to be able to identify areas in the financial statements where material misstatements are likely to arise, to inform the practitioner's approach to designing and performing procedures to address those areas.
- A81. Examples of matters the practitioner may consider in obtaining an understanding of the entity and its environment, and of the applicable financial reporting framework, are:
- The size and complexity of the entity and its operations.
 - The ownership, financing and governance structure of the entity, and any significant related parties.
 - Whether the entity is a component of a group of entities, or an associated entity of another entity.
 - The complexity of the financial reporting framework.
 - Significant or unusual transactions of the entity.

- Whether there are events of conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- The entity's financial reporting obligations or requirements, and whether those obligations or requirements exist under applicable law or regulation or in the context of voluntary financial reporting arrangements established under formalized governance or accountability arrangements, for example, under contractual arrangements with third parties.
- Relevant provisions of laws and regulations that are generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements, such as tax and pension laws and regulations.
- The level of development of the entity's management and governance structure regarding management and oversight of the entity's accounting records and financial reporting systems that underpin preparation of the financial statements.
- The "tone at the top" and the entity's control environment through which the entity addresses risks relating to financial reporting and compliance with the entity's financial reporting obligations.
- The level of development and complexity of the entity's financial accounting and reporting systems and related controls through which the entity's accounting records and related information are maintained.
- The types of matters that required accounting adjustments in the entity's financial statements in prior periods.

Obtaining and Updating the Practitioner's Understanding

- A82. Obtaining an understanding of the entity and its environment is a continual dynamic process of gathering, updating and analyzing information throughout the review engagement. The practitioner's understanding is updated as changes in conditions and circumstances occur. Initial procedures for engagement acceptance and continuance at the time of commencement of a review engagement are based on the practitioner's preliminary understanding of the entity and the engagement circumstances. In a continuing client relationship, the practitioner's understanding includes knowledge obtained from prior engagements performed by the practitioner in relation to the entity's financial statements and other financial information.
- A83. The practitioner's understanding is obtained and applied on an iterative basis throughout performance of the engagement, and may be further expanded and refined through performance of the inquiry and analytical procedures, and other procedures where necessary, and evaluation of the results obtained.
- A84. The practitioner may also consider obtaining reports from other practitioners, if any, and if considered necessary. For example, if the entity is a group entity, reports may be obtained from practitioners engaged to audit or review the financial statements of components of the entity, or who have been engaged to perform procedures for the review in relation to branch operations of the entity located elsewhere.

Designing and Performing Procedures (Ref: Para. 46)

A85. The planned nature, timing and extent of the procedures the practitioner considers are needed to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole are influenced by:

- (a) The requirements of this ISRE; and
- (b) Requirements established under applicable law or regulation including additional reporting requirements contained in applicable laws or regulations.

A86. The requirements of this ISRE relating to designing and performing procedures for the review are directed to achievement of the practitioner's objectives for the engagement. When designed and performed effectively in the light of the practitioner's understanding as required in this ISRE, inquiry and analytical procedures performed are expected to:

- Be sufficient for the practitioner to be able to address all material items in the financial statements, and focus on areas in the financial statements where material misstatements are likely to arise; and
- Provide an adequate basis for the practitioner to be able to conclude on the financial statements as a whole in accordance with this ISRE.

A87. Depending on the practitioner's evaluation of the evidence obtained from the inquiry and analytical procedures performed, the practitioner may need to perform:

- (a) Further procedures, in accordance with paragraph 57, if the practitioner determines that the evidence obtained does not provide an adequate basis for concluding on the financial statements in accordance with this ISRE.
- (b) Additional procedures, in accordance with paragraph 58, if the practitioner becomes aware of a matter(s) that causes the practitioner to believe the financial statements may be materially misstated.

The fact that the practitioner may deem it necessary to perform such procedures to achieve the practitioner's objectives for the engagement does not alter the overall nature and purpose of the engagement. The practitioner's conclusion on the financial statements is based on having obtained limited assurance in relation to the financial statements as a whole.

Significant or Unusual Transactions

A88. The practitioner may consider, reviewing the accounting records with a view to identifying significant or unusual transactions that may require specific attention in the review.

Inquiry (Ref: Para. 47)

A89. In a review, inquiry consists of seeking information of management and other persons within the entity with knowledge of financial and accounting matters, as the practitioner considers appropriate in the engagement circumstances. The practitioner may also extend inquiries to obtain non-financial data as relevant to performance of the review procedures. Evaluating responses is integral to the inquiry process.

- A90. Performing inquiry procedures assists the practitioner also in obtaining or updating the practitioner's understanding of the entity and its environment, including to be able to identify areas where material misstatements are likely to arise in the financial statements.
- A91. Depending on the engagement circumstances, inquiries may include:
- Inquiries about the entity's control environment, and "tone at the top," as they relate to the entity's accounting and financial reporting systems and compliance with financial reporting obligations.
 - Inquiries concerning the entity's procedures for recording, classifying and summarizing transactions, accumulating information for inclusion in the financial statements and related disclosures.
 - Inquiries concerning accounting and financial reporting matters such as:
 - Whether all transactions have been recorded.
 - The entity's accounting principles and practices, and any changes thereto, in the context of the applicable financial reporting framework.
 - Whether the financial statements have been prepared in accordance with the applicable financial reporting framework.
 - Existence of related parties, including their identification and significant disclosures concerning related parties.
 - Events subsequent to the date of the financial statements that could have a material effect on the financial statements.
 - Inquiries about actions taken at meetings of owners, those charged with governance and committees thereof, and proceedings at other meetings, if any, that affect the information and disclosures contained in the financial statements.
 - Inquiries about communications the entity has received, or expects to receive or obtain from regulatory agencies.
 - Inquiries about matters arising in the course of applying other procedures. When performing further inquiries in relation to identified inconsistencies, the practitioner considers the reasonableness and consistency of management's responses in light of the results obtained from other procedures and the practitioner's knowledge and understanding of the entity and the industry in which it operates.
- A92. Evidence obtained through inquiry is often the principal source of evidence about management intent. Information available to support management's intent may be limited, however, and, in that case understanding management's past history of carrying out its stated intentions, management's stated reasons for choosing a particular course of action, and management's ability to pursue a specific course of action may provide relevant information to corroborate the evidence obtained through inquiry.
- A93. Professional skepticism in a review is critical to the practitioner's assessment of management responses to the inquiries. Evaluation of responses provided by management with an attitude of

skepticism is important to enable the practitioner to evaluate whether there are any matter(s) that would cause the practitioner to believe the financial statements may be materially misstated.

Analytical Procedures (Ref: Para. 48)

A94. In a review of financial statements, performing analytical procedures assists the practitioner by:

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

A95. Understanding the techniques, purposes and limitations of analytical procedures is important in order to be able to apply these procedures effectively to develop sufficient appropriate evidence as the basis for a conclusion on the financial statements. Various methods may be used to perform analytical procedures. These methods range from performing simple comparisons to performing complex analysis using statistical techniques.

A96. The practitioner may, for example, apply analytical procedures to evaluate the financial information underlying the financial statements through analysis of plausible relationships among both financial and non-financial data and assessment of results for consistency with expected values with a view to identifying relationships and individual items that appear unusual, or that vary from expected trends or values. The practitioner would compare recorded amounts, or ratios developed from recorded amounts, to expectations developed by the practitioner from information obtained from relevant sources. Examples of sources of information the practitioner often uses to develop expectations, depending on the engagement circumstances, include:

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

- Relationships of financial information with relevant non-financial information, such as payroll costs to number of employees.

A97. The practitioner's consideration of whether data to be used for analytical procedures are satisfactory for the intended purpose(s) of those procedures is based on the practitioner's understanding of the entity and its environment, and is influenced by the nature and source of the data, and by the circumstances in which the data are obtained. The following considerations may be relevant:

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

Procedures Addressing Specific Circumstances

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

A98. Under this ISRE, if the practitioner has identified or suspects fraud or illegal acts, the practitioner is required to determine whether there is a responsibility to report the occurrence or suspicion to a party outside the entity. Although the practitioner's professional duty to maintain the confidentiality of client information may preclude such reporting, the practitioner's legal responsibilities may override the duty of confidentiality in some circumstances.

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

A99. The practitioner is required to perform inquiry to obtain information about management's assessment of the entity's ability to continue as a going concern, and about whether there are events or conditions that appear to cast doubt on the entity's ability to continue as a going concern. The list of factors below gives examples of conditions that may cast doubt regarding use of the going concern assumption in the financial statements. The list is not all-inclusive, and the existence of one or more of the items does not always signify that uncertainty exists about whether the entity can continue as a going concern.

Financial

- Net liability or net current liability position
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment, or excessive reliance on short-term borrowings to finance long-term assets

- Indications of withdrawal of financial support by creditors
- Negative operating cash flows indicated by historical or prospective financial statements
- Adverse key financial ratios
- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows
- Arrears or discontinuance of dividends
- Inability to pay creditors on due dates
- Inability to comply with the terms of loan agreements
- Change from credit to cash-on-delivery transactions with suppliers
- Inability to obtain financing for essential new product development or other essential investments

Operating

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

Other

- Non-compliance with capital or other statutory requirements
- Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy
- Changes in law or regulation or government policy expected to adversely affect the entity
- Uninsured or underinsured catastrophes when they occur

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

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

A100. The practitioner ordinarily obtains evidence that the financial statements agree with, or reconcile to, the underlying accounting records by tracing the financial statement amounts and balances to the relevant accounting records such as the general ledger, or to a summary record or schedule

that reflects the agreement or reconciliation of the financial statement amounts with the underlying accounting records (such as a trial balance).

Evaluating Evidence Obtained from Procedures Performed (Ref: Para. 57)

- A101. The requirement to perform further procedures is always directed to achieving the practitioner's objectives for the review engagement. The fact that the practitioner may perform procedures other than inquiry and analytical procedures does not alter the overall nature and purpose of the engagement.
- A102. For example, the practitioner may decide to perform further procedures to verify management's assertions for a material account balance or transaction reflected in the financial statements if, in the particular engagement circumstances, the practitioner considers the evidence obtained from the procedures already performed (inquiry and analytical procedures, reconciling the financial statements to the underlying accounting records, and procedures addressing specific circumstances) is not sufficient to be able to conclude on the financial statements as a whole. Examples of further procedures include obtaining an external confirmation of an account balance from a third party, or carrying out a physical inspection of a material asset.

Performing Additional Procedures (Ref: Para. 58)

- A103. Additional procedures are only required under this ISRE if the practitioner becomes aware of a matter that causes the practitioner to believe the financial statements may be materially misstated.
- A104. The practitioner's response in undertaking additional procedures with respect to an item the practitioner has cause to believe may be materially misstated in the financial statements will vary, depending on the circumstances, and is a matter for the practitioner's professional judgment.
- A105. The practitioner's judgment about the nature, timing and extent of additional procedures that are needed to obtain evidence to either conclude that a material misstatement is not likely, or determine that a material misstatement exists, is guided by:
- Information obtained from the practitioner's evaluation of the results of the procedures already performed;
 - The practitioner's updated understanding of the entity and its environment obtained throughout the course of the engagement;
 - The practitioner's perception of the level of risk of material misstatement that the matter poses in the context of the financial statements as a whole, and the practitioner's professional judgment of the evidence needed to adequately address the identified risk.

For example, if something causes the practitioner to believe the financial statements may be materially misstated, the nature and extent of additional procedures applied as the practitioner's response will depend on the practitioner's perception of the risk of material misstatement. The nature and extent of the practitioner's response is also conditioned by the requirements of this ISRE. For example, in order to express an adverse conclusion on the financial statements the practitioner must have obtained sufficient appropriate evidence to determine that the financial statements are materially misstated to support giving that conclusion.

A106. Additional procedures focus on addressing the items the practitioner has cause to believe may cause the financial statements to be materially misstated. The procedures may be:

- Additional inquiry or analytical procedures, for example, being performed in greater detail or being focused on the affected items (i.e. amounts or disclosures concerning the affected accounts or transactions as reflected in the financial statements); or
- Other types of procedures, for example, substantive test of details or external confirmations.

A107. The following examples illustrate situations where the practitioner would need to consider whether the requirement to perform additional procedures applies in the circumstances of an individual review engagement, and the practitioner's response:

- A practitioner may perceive, in relation to a number of individual items the practitioner has cause to believe may be misstated, that there is a relatively low risk that those items, in aggregate, would cause the financial statements as a whole to be materially misstated. In light of the practitioner's perception of the risk of material misstatement in relation to the financial statements as a whole, the practitioner would be able to conclude that those items are not likely to cause the financial statements as a whole to be misstated.
- An analysis of the gross margin may indicate a relatively high risk of material misstatement in cost of goods sold or sales. In this case, the practitioner would design and perform additional procedures to obtain sufficient appropriate evidence to be able to either conclude that either or both the cost of goods sold and sales are not materially misstated, or determine they are materially misstated.

Evaluation of Results Obtained from Additional Procedures (Ref: Para. 59)

A108. If the practitioner is not able to obtain sufficient appropriate evidence to either conclude that the matter is not likely to cause the financial statements as a whole to be materially misstated, or to determine that the matter does cause the financial statements as a whole to be materially misstated, then a scope limitation exists and the practitioner is not able to form a conclusion on the financial statements. .

Written Representations (Ref: Para. 60–61)

A109. The practitioner is required to request written representations from management in the form of a representation letter addressed to the practitioner. Written representations confirming that management has fulfilled its responsibilities described in the agreed terms of the engagement are described in the same manner as described in the agreed terms of the engagement. Written representations may also be needed to complete the practitioner's evidence with respect to certain items or disclosures reflected in the financial statements where the practitioner considers such representations to be important in forming a conclusion on the financial statements on either a modified or unmodified basis.

A110. In some cases, management may include in the written representations qualifying language to the effect that representations are made to the best of management's knowledge and belief. It is reasonable for the practitioner to accept such wording if the practitioner is satisfied that the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.

Forming the Practitioner's Conclusion on the Financial Statements

Description of the Applicable Financial Reporting Framework (Ref: Para. 67(a))

- A111. The preparation of the financial statements by management requires the inclusion of an adequate description of the applicable financial reporting framework in the financial statements. That description is important because it advises users of the financial statements of the framework on which the financial statements are based. If the financial statements are special purpose financial statements, they may be prepared under a special purpose financial reporting framework that is available only to the engaging party and the practitioner. Description of the special purpose financial reporting framework used is important as the special purpose financial statements may not be appropriate for any use other than the intended use identified for the special purpose financial statements.
- A112. A description that the financial statements are prepared in accordance with a particular applicable financial reporting framework is appropriate only if the financial statements comply with all the requirements of that framework that are effective during the period covered by the financial statements.
- A113. A description of the applicable financial reporting framework that contains imprecise qualifying or limiting language (for example, "the financial statements are in substantial compliance with International Financial Reporting Standards") is not an adequate description of that framework as it may mislead users of the financial statements.

Disclosure of Effects of Material Transactions and Events on Information Conveyed in the Financial Statements (Ref: Para. 67(b)(vi))

- A114. It is common for financial statements prepared in accordance with a general purpose framework to present an entity's financial position, financial performance and cash flows. In such circumstances, the practitioner is required under this ISRE to evaluate whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the entity's financial position, financial performance and cash flows.
- A115. The practitioner's conclusion covers the complete set of financial statements as defined by the applicable financial reporting framework. Many general purpose frameworks, for example, require the financial statements to include: a statement of financial position, a statement of financial performance, a statement of changes in equity, a cash flow statement, and a summary of significant accounting policies and other explanatory information. In some jurisdictions, additional information might also be considered to be an integral part of the financial statements.
- A116. There may be cases where the financial statements, although prepared in accordance with the requirements of a fair presentation framework, do not achieve fair presentation. Where this is the case, it may be possible for management to include additional disclosures in the financial statements beyond those specifically required by the framework or, in extremely rare circumstances, to depart from a requirement in the framework in order to achieve fair presentation of the financial statements.
- A117. When the financial statements are prepared in accordance with a compliance framework, the practitioner evaluates whether the financial statements prepared in accordance with the

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

Qualitative Aspects of the Entity's Accounting Practices (Ref: Para. 68(b))

A118. In considering the qualitative aspects of the entity's accounting practices, the practitioner may become aware of possible bias in management's judgments. The practitioner may conclude that the cumulative effect of a lack of neutrality, together with the effect of apparent uncorrected misstatements, causes the financial statements as a whole to be materially misstated. Indicators of a lack of neutrality that may affect the practitioner's evaluation of whether the financial statements as a whole may be materially misstated include the following:

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

A119. Indicators of possible management bias do not necessarily mean there are misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the practitioner's consideration of whether the financial statements as a whole may be materially misstated.

Scope Limitations (Ref: Para. 70)

A120. Inability to perform a specific procedure does not constitute a limitation on the scope of the review if the practitioner is able to obtain sufficient appropriate evidence by performing other procedures. If this is not possible, the practitioner will need to evaluate the effect on the practitioner's ability to form a conclusion on the financial statements, and comply with the reporting requirements of this ISRE to issue an appropriate report or withdraw from the engagement, where appropriate.

A121. Limitations imposed by management may have other implications for the review, such as for the practitioner's consideration of areas where the financial statements are likely to be materially misstated, and engagement continuance.

Inability to Form a Conclusion Due to a Management-Imposed Limitation on the Scope of the Review after Engagement Acceptance (Ref: Para. 83(b))

A122. The practicality of withdrawing from the engagement may depend on the stage of completion of the engagement at the time that management imposes the scope limitation. If the practitioner has substantially completed the review, the practitioner may decide to complete the review to the extent possible, disclaim a conclusion and explain the scope limitation in the paragraph in the report that describes the basis for disclaiming a conclusion, prior to withdrawing.

A123. In certain circumstances, withdrawal from the engagement may not be possible if the practitioner is required by law or regulation to continue the engagement. For example, this may be the case for a practitioner appointed to review the financial statements of a public sector entity. It may also

be the case in jurisdictions where the practitioner is appointed to review the financial statements covering a specific period, or appointed for a specific period and is prohibited from withdrawing before the completion of the review of those financial statements or before the end of that period, respectively. The practitioner may also consider it necessary to include an Other Matter paragraph in the practitioner's report to explain why it is not possible for the practitioner to withdraw from the engagement.

Communication with Regulators or the Entity's Owners

- A124. When the practitioner concludes that withdrawal from the engagement is necessary because of a scope limitation, there may be a professional, legal or regulatory requirement for the practitioner to communicate matters relating to the withdrawal from the engagement to regulators or the entity's owners.

The Practitioner's Report (Ref: Para. 84–91)

- A125. The written report encompasses reports issued in hard copy format and those using an electronic medium.

Elements of the Practitioner's Report (Ref: Para. 84)

- A126. A title indicating the report is the report of an independent practitioner, for example, "Independent Practitioner's Review Report," affirms that the practitioner has met all of the relevant ethical requirements regarding independence and, therefore, distinguishes the independent practitioner's report from reports issued by others.
- A127. Law or regulation may specify to whom the practitioner's report is to be addressed in that particular jurisdiction. The practitioner's report is normally addressed to those for whom the report is prepared, often either to the shareholders or to those charged with governance of the entity whose financial statements are being reviewed.
- A128. When the practitioner is aware that the financial statements that have been reviewed will be included in a document that contains other information, such as a financial report, the practitioner may consider, if the form of presentation allows, identifying the page numbers on which the financial statements that have been reviewed are presented. This helps users to identify the financial statements to which the practitioner's report relates.

Management's Responsibility for the Financial Statements (Ref: Para. 84(d))

- A129. The requirement of this ISRE that the practitioner must obtain management's agreement that it acknowledges and understands its responsibilities, both in relation to the preparation of the financial statements and in relation to the review engagement is fundamental to performing the review and reporting on the engagement. The description of management's responsibilities in the practitioner's report includes reference to:
- The responsibility for preparing financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation; and

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

This description provides context for readers of the practitioner's report about management's responsibilities, as they relate to the review engagement performed.

- A130. The practitioner's report need not refer specifically to "management" but instead may use the term that is appropriate in the context of the legal framework in the particular jurisdiction. In some jurisdictions, the appropriate reference is to those charged with governance of the entity.
- A131. There may be circumstances when it is appropriate for the practitioner to add to the description of management's responsibilities as described in this ISRE to reflect additional responsibilities that are relevant to the preparation of the financial statements in the context of a jurisdiction, or due to the type of entity.
- A132. In some jurisdictions, law or regulation prescribing management's responsibilities may specifically refer to a responsibility for the adequacy of accounting books and records, or accounting system. As books, records and systems are an integral part of internal control, this ISRE does not use these descriptions or make any specific reference to them.

The Practitioner's Responsibility (Ref: Para. 84(f))

- A133. The practitioner's report states that the practitioner's responsibility is to express a conclusion on the financial statements based on the review performed, in order to contrast the practitioner's responsibility with management's responsibility for preparation of the financial statements.

Reference to standards (Ref: Para. 84(f)(i))

- A134. The reference to the standards used by the practitioner for the review conveys to the users of the practitioner's report that the review has been conducted in accordance with established standards.

Communication of the Nature of a Review of Financial Statements (Ref: Para. 84(f)(ii), 85)

- A135. The description of the nature of a review engagement in the practitioner's report explains the scope and limitations of the engagement undertaken for the benefit of the readers of the report. This explanation clarifies, for avoidance of doubt, that the review is not an audit and that accordingly, the practitioner does not express an audit opinion on the financial statements..

"Present Fairly, in All Material Respects" or "Gives a True and Fair View" (Ref: Para. 84(g))

- A136. Whether the phrase "present fairly, in all material respects," or the phrase "gives a true and fair view" is used in any particular jurisdiction is determined by the law or regulation governing the review of financial statements in that jurisdiction, or by generally accepted practice in that jurisdiction. Where law or regulation requires the use of different wording, this does not affect the requirement in paragraph 69 of this ISRE for the practitioner to evaluate the fair presentation of financial statements prepared in accordance with a fair presentation framework.

Description of the information the financial statements present

A137. In the case of financial statements prepared in accordance with a fair presentation framework, the practitioner's conclusion states that nothing has come to the practitioner's attention that causes the practitioner to believe that the financial statements do not present fairly, in all material respects, ... (or do not give a true and fair view of ...) in accordance with [the applicable fair presentation framework]. In the case of many general purpose frameworks, for example, the financial statements are required to fairly present (or give a true and fair view of) the financial position of the entity as at the end of a period, and the entity's financial performance and cash flows for that period.

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

A138. The identification of the applicable financial reporting framework in the practitioner's conclusion is intended to advise users of the practitioner's report of the context in which that conclusion is expressed. It is not intended to limit the evaluation required in paragraph 30(a). The applicable financial reporting framework is identified in such terms as:

“... in accordance with International Financial Reporting Standards” or

“... in accordance with accounting principles generally accepted in Jurisdiction X
...”

A139. When the applicable financial reporting framework encompasses financial reporting standards and legal or regulatory requirements, the framework is identified in such terms as “... in accordance with International Financial Reporting Standards and the requirements of Jurisdiction X Corporations Act.”

Signature of the Practitioner (Ref: Para. 84(j))

A140. The practitioner's signature is either in the name of the practitioner's firm, the personal name of the individual practitioner, or both, as appropriate for the particular jurisdiction. In addition to the practitioner's signature, in certain jurisdictions, the practitioner may be required to make a declaration in the practitioner's report about professional designations or recognition by the appropriate licensing authority in that jurisdiction.

Alerting Readers that the Financial Statements Are Prepared in Accordance with a Special Purpose Framework (Ref: Para. 87)

A141. The special purpose financial statements may be used for purposes other than those for which they were intended. For example, a regulator may require certain entities to place the special purpose financial statements on public record. To avoid misunderstandings, the practitioner alerts users of the practitioner's report that the financial statements are prepared in accordance with a special purpose framework and, therefore, may not be suitable for another purpose.

Restriction on Distribution or Use

A142. In addition to the alert to the reader of the practitioner's report that is required by this ISRE when the financial statements are prepared using a special purpose framework, the practitioner may consider it appropriate to indicate that the practitioner's report is intended solely for the specific

users. Depending on the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the practitioner's report. In these circumstances, the paragraph containing the alert about the use of a special purpose framework may be expanded to include these other matters, and the heading modified accordingly.

Other Reporting Responsibilities (Ref: Para. 90)

- A143. In some jurisdictions, the practitioner may have additional responsibilities to report on other matters that are supplementary to the practitioner's responsibility under this ISRE. For example, the practitioner may be asked to report certain matters if they come to the practitioner's attention during the course of the review of the financial statements. Alternatively, the practitioner may be asked to perform and report on additional specified procedures, or to express a conclusion on specific matters, such as the adequacy of accounting books and records. Standards on engagements to review financial statements in the specific jurisdiction may provide guidance on the practitioner's responsibilities with respect to specific additional reporting responsibilities in that jurisdiction.
- A144. In some cases, the relevant law or regulation may require or permit the practitioner to report on these other responsibilities within the practitioner's report on the financial statements. In other cases, the practitioner may be required or permitted to report on them in a separate report.
- A145. These other reporting responsibilities are addressed in a separate section of the practitioner's report, to clearly distinguish them from the practitioner's responsibility under this ISRE to report on the financial statements. Where relevant, this section may contain sub-heading(s) that describe(s) the content of the other reporting responsibility paragraph(s). In some jurisdictions, the additional reporting responsibilities may be addressed in a report that is separate from the practitioner's report provided for the review of the financial statements.

Date of the Practitioner's Report (Ref: Para. 84(i), 91)

- A146. The date of the practitioner's report informs the user of the practitioner's report that the practitioner has considered the effect of events and transactions of which the practitioner became aware and that occurred up to that date.
- A147. The practitioner's conclusion is provided on the financial statements and the financial statements are the responsibility of management. The practitioner is not in a position to conclude that sufficient appropriate evidence has been obtained until the practitioner is satisfied that all the statements that comprise the financial statements, including the related notes, have been prepared and management has accepted responsibility for them.
- A148. In some jurisdictions, law or regulation identifies the individuals or bodies (for example, the directors) that are responsible for concluding that all the statements that comprise the financial statements, including the related notes, have been prepared, and specifies the necessary approval process. In such cases, evidence is obtained of that approval before dating the report on the financial statements. In other jurisdictions, however, the approval process is not prescribed in law or regulation. In such cases, the procedures the entity follows in preparing and finalizing its financial statements in view of its management and governance structures are considered in order to identify the individuals or body with the authority to conclude that all the statements that comprise the financial statements, including the related notes, have been prepared. In some

cases, law or regulation may identify the point in the financial statement reporting process at which the review is expected to be complete.

- A149. In some jurisdictions, final approval of the financial statements by shareholders is required before the financial statements are issued publicly. In these jurisdictions, final approval by shareholders is not necessary for the practitioner to conclude on the financial statements. The date of approval of the financial statements for purposes of this ISRE is the earlier date on which those with the recognized authority determine that all the statements that comprise the financial statements, including the related notes, have been prepared and that those with the recognized authority have asserted that they have taken responsibility for them.

Practitioner's Report Prescribed by Law or Regulation (Ref: Para. 35, 84)

- A150. The practitioner may be required to comply with legal or regulatory requirements in addition to this ISRE. Where this is the case, the practitioner may be obliged to use a layout or wording in the practitioner's report that differs from that described in this ISRE. Consistency in the practitioner's report, when the review has been conducted in accordance with this ISRE, promotes credibility in the global marketplace by making more readily identifiable those reviews of financial statements that have been conducted in accordance with globally recognized standards. When the differences between the legal or regulatory requirements and this ISRE relate only to the layout and wording of the practitioner's report and, at a minimum, the requirements of paragraph 84 of this ISRE are included in the practitioner's report, the practitioner's report may refer to this ISRE. Accordingly, in such circumstances the practitioner is considered to have complied with the requirements of this ISRE, even when the layout and wording used in the practitioner's report are specified by legal or regulatory reporting requirements. Where specific requirements in a particular jurisdiction do not conflict with this ISRE, adoption of the layout and wording used in this ISRE assists users of the practitioner's report to more readily recognize the practitioner's report as a report on a review of financial statements conducted in accordance with this ISRE. Circumstances where law or regulation prescribes the layout or wording of the practitioner's report in terms that are significantly different from the requirements of this ISRE are addressed in the requirements of this ISRE concerning acceptance of review engagements and continuance of client relationships.

Practitioner's Report for Reviews Conducted in Accordance with Both Relevant Standards of a Specific Jurisdiction and this ISRE (Ref: Para. 84(f)(i))

- A151. When, in addition to complying with the requirements of this ISRE, the practitioner also complies with relevant national standards, the report may refer to the review having been performed in accordance with both this ISRE and relevant national standards for engagements to review financial statements. However, a reference to both this ISRE and relevant national standards is not appropriate if there is a conflict between the requirements of this ISRE and those in the relevant national standards that would lead the practitioner to form a different conclusion or not to include an Emphasis of Matter paragraph that, in the particular circumstances, would be required by this ISRE. In such a case, the practitioner's report refers only to the relevant standards (either this ISRE or the relevant national standards) in accordance with which the practitioner's report has been prepared.

Illustrative Review Reports

- A152. Appendix 2 to this ISRE contains illustrations of practitioners' reports for a review of financial statements incorporating the reporting requirements of this ISRE.

Illustrative Engagement Letter for an Engagement to Review Historical Financial Statements

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

To the appropriate representative of management or those charged with governance of ABC Company:¹

[The objective and scope of the review]

You² have requested that we review the financial statements of ABC Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. We are pleased to confirm our acceptance and our understanding of this review engagement by means of this letter.

Our review will be conducted with the objective of expressing our conclusion on the financial statements, that is “Based on our review, nothing has come to our attention that causes us to believe that these financial statements do not present fairly, in all material respects, (*or do not give a true and fair view of*) the financial position of the company as at [date] and its financial performance for the year then ended in accordance with International Financial Reporting Standards (IFRS).”

[The practitioner’s responsibilities]

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

A review of financial statements in accordance with ISRE 2400 is a limited assurance engagement. We will perform procedures, primarily consisting of making inquiries of management and others within the entity involved in financial and accounting matters and applying analytical procedures, and evaluate the

¹ The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons—see paragraph 36 of this ISRE.

² Throughout this letter, references to “you,” “we,” “us,” “management,” “those charged with governance” and “practitioner” would be used or amended as appropriate in the circumstances.

evidence obtained. We will also perform additional procedures if we become aware of matters that cause us to believe the financial statements as a whole may be materially misstated. These procedures are performed to enable us to express our conclusion on the financial statements in accordance with ISRE 2400. The procedures selected will depend on what we consider necessary applying our professional judgment, based on our understanding of ABC Company and its environment, and our understanding of IFRS and its application in the industry context.

A review is not an audit of the financial statements, therefore:

- (a) There is a commensurate higher risk than there would be in an audit, that any material misstatements that exist in the financial statements reviewed may not be revealed by the review, even though the review is properly performed in accordance with ISRE 2400.
- (b) In expressing our conclusion from the review of the financial statements, our report on the financial statements will state that an audit has not been performed and will expressly disclaim any audit opinion on the financial statements.

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

Our review will be conducted on the basis that [management and, where appropriate, those charged with governance]³ acknowledge and understand that they have the responsibility:

- (a) For preparation and fair presentation of the financial statements in accordance with IFRS;⁴
- (b) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- (c) To provide us with:
 - (i) Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation and other matters;
 - (ii) Additional information that we may request from management for the purpose of the review; and
 - (iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain evidence or information relevant to the review.

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

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

[Other relevant information]

³ Use terminology as appropriate in the circumstances.

⁴ Or, if appropriate, "For the preparation of financial statements that give a true and fair view in accordance with IFRS."

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

[Reporting]

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

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

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

XYZ & Co.

Acknowledged and agreed on behalf of ABC Company by

(signed)

.....

Name and Title

Date

Illustrative Practitioners' Review Reports

Review Reports on General Purpose Financial Statements

Illustrative Review Reports with Unmodified Conclusions

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

Illustrative Review Reports with Modified Conclusions

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

Review Reports on Special Purpose Financial Statements

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

Illustration 1:

Circumstances include the following:

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

INDEPENDENT PRACTITIONER'S REVIEW REPORT

[Appropriate Addressee]

Report on the Financial Statements⁵

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

Management's⁶ Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards for Small and Medium-sized Entities,⁷ and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner's Responsibility

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

⁵ The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

⁶ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

⁷ Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards for Small and Medium-sized Entities, and for such ..."

A review of financial statements in accordance with ISRE 2400 is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity involved in financial and accounting matters and applying analytical procedures, and evaluates the evidence obtained.

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

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

Conclusion

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

Report on Other Legal and Regulatory Requirements

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

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

Illustration 2:

Circumstances include the following:

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

INDEPENDENT PRACTITIONER'S REVIEW REPORT

[Appropriate Addressee]

Report on the Financial Statements⁸

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

Management's⁹ Responsibility for the Financial Statements

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

Practitioner's Responsibility

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

⁸ The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

⁹ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

requirements.

A review of financial statements in accordance with ISRE 2400 is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity involved in financial and accounting matters and applying analytical procedures, and evaluates the evidence obtained. We believe that the evidence we have obtained in our review is sufficient and appropriate to provide a basis for our qualified conclusion.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

Basis for Qualified Conclusion

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

Qualified Conclusion

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

Report on Other Legal and Regulatory Requirements

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

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

Illustration 3:

Circumstances include the following:

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

INDEPENDENT PRACTITIONER'S REVIEW REPORT

[Appropriate Addressee]

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

Management's¹⁰ Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with [name of applicable financial reporting framework including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards],¹¹ and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner's Responsibility

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

¹⁰ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

¹¹ Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such ..."

A review of financial statements in accordance with ISRE 2400 is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity involved in financial and accounting matters and applying analytical procedures, and evaluates the evidence obtained. We believe that the evidence we have obtained in our review is sufficient and appropriate to provide a basis for our qualified conclusion.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

Basis for Qualified Conclusion

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

Qualified Conclusion

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

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

Illustration 4:

Circumstances include the following:

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

INDEPENDENT PRACTITIONER'S REVIEW REPORT

[Appropriate Addressee]

Report on the Consolidated Financial Statements¹²

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

Management's¹³ Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards,¹⁴ and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner's Responsibility

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

¹² The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

¹³ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

¹⁴ Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such ..."

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

A review of consolidated financial statements in accordance with ISRE 2400 is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity involved in financial and accounting matters, and applying analytical procedures, and evaluates the evidence obtained.

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

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these consolidated financial statements.

Basis for Adverse Conclusion

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

Adverse Conclusion

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

Report on Other Legal and Regulatory Requirements

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

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

Illustration 5:

Circumstances include the following:

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

INDEPENDENT PRACTITIONER'S REVIEW REPORT

[Appropriate Addressee]

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

Management's¹⁵ Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards,¹⁶ and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner's Responsibility

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

Basis for Disclaimer of Conclusion

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

¹⁵ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

¹⁶ Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such ..."

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

Disclaimer of Conclusion

Due to the significance of the matters described in the Basis for Disclaimer of Conclusion paragraph, we were unable to form a conclusion on the accompanying financial statements. Accordingly, we do not express a conclusion on these financial statements.

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

Reports on Special Purpose Financial Statements

Illustration 6:

Circumstances include the following:

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

INDEPENDENT PRACTITIONER'S REVIEW REPORT

[Appropriate Addressee]

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

Management's¹⁷ Responsibility for the Financial Statements

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

Practitioner's Responsibility

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

A review of financial statements in accordance with ISRE 2400 is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the

¹⁷ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

entity involved in financial and accounting matters, and applying analytical procedures, and evaluates the evidence obtained.

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

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

Conclusion

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

Basis of Accounting, and Restriction on Distribution and Use

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

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

Illustration 7:

Circumstances include the following:

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

INDEPENDENT PRACTITIONER'S REVIEW REPORT

[Appropriate Addressee]

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

Management's¹⁸ Responsibility for the Financial Statement

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

Practitioner's Responsibility

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

A review of financial statements in accordance with ISRE 2400 is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity involved in financial and accounting matters, and applying analytical procedures, and evaluates the evidence obtained.

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

¹⁸ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

our conclusion.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on this financial statement.

Conclusion

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

Basis of Accounting

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

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]