Review Engagements—Issues and IAASB Task Force Proposals

I. Objective

1. The objectives of this Paper are to:
   (a) Consider significant issues to be addressed in the revision of ISRE 2400\(^1\) for engagements to review financial statements, and
   (b) Request feedback on proposed requirements for performance of financial statement reviews, as drafted by the project Task Force.\(^2\)

2. Draft requirements for the revised standard, as developed by the Task Force to date, can be viewed in the Appendix. The material provided in the Appendix is currently under development by the Task Force, and accordingly is not for discussion except as addressed in this Issues Paper. The Task Force considers that being able to view the set of draft requirements is beneficial, for illustrative purposes.

II. Background

June 2009 IAASB Meeting

3. At its meeting in June 2009, the IAASB agreed the priority of developing a revised standard on reviews of financial information.

4. The IAASB agreed that the revised standard should:
   - Be developed in tandem with development of a revised standard on compilation of financial information.
   - Clearly distinguish reviews from other assurance and non-assurance services, including through communications between the parties to the engagement and the intended users in individual engagements.
   - Be developed as a “stand-alone” package of standards for review engagements that practitioners can use without reference to the International Standards on Auditing (ISAs).
   - Apply to financial statements prepared in accordance with general-purpose and special-purpose financial reporting frameworks as defined in the ISAs.
   - Address various technical matters that need to be clarified in relation to performance of reviews, including:
     - What “limited assurance” means in a review of financial statements; and

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\(^1\) International Standard on Review Engagements (ISRE) 2400, “Engagements to Review Financial Statements.”

\(^2\) The project Task Force has not completed drafting application guidance and other explanatory material that it considers is needed to explain application of the draft requirements in the revised standard. The application guidance will be presented for IAASB consideration when the Task Force presents the proposed revised standard for the IAASB’s first read.
o How the practitioner can incorporate a consideration of the risk of material misstatement into performance of a review, using a “risk informed” approach that does not extend to the full risk-assessment approach that is applied in an audit.

5. The IAASB also agreed the Task Force should consider communications to promote practitioner and user awareness about reviews as services available to audit-exempt entities, including their possible use in combinations of services designed to meet unique user needs.

**September 2009 IAASB Meeting**

6. At its meeting in September 2009, the IAASB agreed the following:

- A “building block” approach should be used to design the review engagement, where the review engagement builds on the compilation service (i.e. providing limited assurance on financial statements on the basis of greater work effort than is applied in a compilation).
- The approach to performing a review should be a hybrid approach, where the practitioner performs specified types of procedures with the aim of achieving a targeted level of assurance, i.e. limited assurance. The term limited assurance should not be defined, because it represents a range and the level of limited assurance actually achieved varies between review engagements depending on the work effort applied by the practitioner. However the practitioner must apply a minimum level of work effort (through performance of the procedures required for a review) that is aimed at delivering a minimum level of limited assurance. The Task Force should design the revised standard following this approach.
- Regarding engagement acceptance considerations, the revised standard should include the premises on which a review of financial statements is performed, as preconditions for acceptance of a review engagement. The integrity of management, and ability of an entity’s accounting systems to produce reliable information as the basis for being able to perform a review, should be identified as further considerations in the revised standard.
- The practitioner’s understanding of the entity and its environment to perform a review of financial statements should be scalable, to cater to the situations of performing reviews for both large and small entities. The practitioner need not have an understanding of internal control, but should be required to have an understanding of the accounting system as a minimum. The quality of management and the systems implemented by management for financial reporting are important elements of the practitioner’s understanding.
- The practitioner’s treatment of engagement risk in the review should be an integral part of planning the engagement and identifying the procedures to be performed to

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3 The Task Force has not reached consensus on an appropriate term to describe the approach a practitioner follows to gain a sufficient understanding of the risk of material misstatements necessary to plan and perform the review. The term “risk informed,” which appears in various places throughout this paper, is intended to convey the approach to risk explained in paragraph 41.
achieve the engagement objective. Use of professional judgment and application of professional skepticism are important to the practitioner’s consideration of the risk of material misstatements in the financial statements.

- Regarding any inconsistencies the practitioner observes in the financial information being reviewed, and the extent of work effort to be applied to resolve those, the revised standard should require such inconsistencies to be resolved, in the first instance, through obtaining additional or amended information from management or those charged with governance of the entity where possible, and through performance of additional procedures. When such inconsistencies cannot be resolved either through additional information or additional procedures, the practitioner would modify the conclusion expressed in the report when appropriate. If the practitioner cannot obtain sufficient review evidence to be able to form a conclusion on the financial statements that would mean the review is not complete, and the practitioner should not report with a disclaimer of the conclusion but should rather withdraw from the engagement without issuing a report.

- The revised standard should include requirements on obtaining written representations from management or those charged with governance as appropriate.

- In view of the fact that management and those charged with governance may often be the same party (or parties) in smaller entities, requirements about communications with those parties need to be addressed in the revised standard somewhat differently than as they appear in the ISAs.

- Regarding misstatements arising from fraud or noncompliance with laws and regulations, the practitioner’s responsibilities concerning these types of misstatements are not different from the practitioner’s responsibilities regarding other types of misstatements in the context of performing a review.

- The positive expression of conclusion should not be used, because it leaves significant scope for misinterpretation by users. The negative form of conclusion is more appropriate form of expression given the limited work effort applied in the engagement.

- Reporting requirements in the revised review standard should mirror those in ISA 700,4 and ISA 8005 for special purpose reports. The disclaimer of conclusion should be used only in context of an inability to complete the review in the case where, under laws and regulations that apply in a national setting, the practitioner is not able to withdraw from the engagement (see above).

- Questions regarding the practitioner’s independence in a review of financial statements are appropriately addressed in the IESBA Code of Ethics for Professional Accountants (IESBA Code).

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5 International Standard on Auditing (ISA) 800, “Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks.”
• ISRE 2410,\textsuperscript{6} which addresses reviews of financial statements or interim financial statements performed by the auditor of an entity, should not be renamed or re-classified to better distinguish such reviews from reviews performed by a practitioner who is not the auditor of an entity. This question may be considered at a later stage when revised ISRE 2400 is completed.

**Project Update**

7. The IAASB staff anticipates issuing a project update in early March for stakeholders who are interested in the progress of the wider project to establish standards for services other than audits relating to financial statements and other types of financial information. The project update explains the approach the IAASB and the project Task Force are following to achieve the project aims, identified project priorities, and progress being made with revision of ISRS 4410\textsuperscript{7} and ISRE 2400.

**III. Significant Issues**

**Matters Considered by the Task Force relating to Scope and Definitional Matters**

*The Practitioner’s Objectives*

8. The Task Force proposes the following statement of the practitioner’s objectives for the review of financial statements:

   In conducting a review of financial statements, the practitioner’s objectives are to:

   (a) Obtain limited assurance about the financial statements of an entity by obtaining sufficient, appropriate review evidence through performance of review procedures to enable the practitioner to express a conclusion on 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 the applicable financial reporting framework; and

   (b) Report on the financial statements in accordance with the practitioner’s findings.

9. The terms “review evidence” and “review procedures” are to be defined in the revised standard (see paragraphs 11-16). The terms “financial statements” and “applicable financial reporting framework” are as defined in the IAASB Glossary.

10. The Task Force reached the view that, although the definition of “review evidence” includes reference to the term “review procedures” the statement of the objectives for the engagement should contain both these terms in view of the fact that the approach to be followed for the review engagement is mainly procedures-based.

\textsuperscript{6} International Standard on Review Engagements (ISRE) 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.”

\textsuperscript{7} International Standard on Related Services (ISRS) 4410, “Engagements to Compile Financial Information.”
Matters for IAASB Consideration

Q1. Does the IAASB agree with the proposed statement of the practitioner’s objectives?

Definitions

11. The Task Force proposes the following definitions to explain the meaning of the terms “review evidence” and “review procedures,” which appear in the proposed statement of the practitioner’s objectives.

Review evidence – The information used by the practitioner to obtain limited assurance that the financial statements taken as a whole are worthy of belief. Such information is obtained through the practitioner’s understanding of the entity and its environment, combined with performance of review procedures that the practitioner judges appropriate in the circumstances of an individual engagement.

Review procedures – Primarily inquiry of management and analytical procedures performed by the practitioner.

12. The interaction between the proposed objectives and the definition of “review evidence” is a pivotal feature of the way the Task Force believes the revised standard should be drafted. The Task Force has followed the direction provided by the IAASB, when it discussed the Issues Paper presented at the September 2009 IAASB meeting, that following a “procedures-based” approach to describing what limited assurance means in a review of financial statements, rather than attempting to define it, is the optimal approach. Accordingly, limited assurance is achieved through performance of review procedures (as defined) in the context of the practitioner’s understanding of the entity and its environment, which taken together provide the evidential basis for expression of a conclusion on the financial statements.

13. The question of how the practitioner comes to the view that the review evidence provides limited assurance on the financial statement is proposed to be described as the financial statements being “worthy of belief,” in the practitioner’s view, based on the information and evidence obtained from the review. This phrase figuratively represents the “floor” of the concept of limited assurance in a review, i.e. the level of evidential support the practitioner must achieve, as a minimum, to be able to express a conclusion on the financial statements as a whole. That level is achieved through review procedures performed against the background of the practitioner’s knowledge and understanding of the entity and its environment (discussed in more detail later in this paper).

14. The Task Force does not consider the phrase “worthy of belief” needs to be defined, but will develop explanatory material to assist practitioners’ understanding and interpretation of it. The Task Force has considered other language that might possibly be used to communicate this idea, for example “plausible,” and also how well alternative wording might translate in other languages. The phrase “worthy of belief” appeared to the Task Force to be the best option for use in the revised standard as it is non-technical, and can be used in the context of its ordinary plain-language meaning without requiring a great deal of interpretation or explanation.
15. Another view expressed in the Task Force’s discussions is that the statement of the practitioner’s objective could be worded with greater specificity, to include reference to obtaining limited assurance that the financial statements do not require material modification (amendment) to be in accordance with the applicable financial reporting framework. An initial reaction to this suggestion is that if that statement were included, either on its own or in addition to the objective stated in paragraph 11, it could detract from the goal of clearly distinguishing the review from the audit in the engagement objective(s). The Task Force agreed, however, that user perspectives are important and that the suggested additional or alternative wording may possibly align better with user perspectives. Using the suggested wording would introduce greater specificity but also terms that are of a more technical nature, such as “material modification,” and the Task Force generally preferred the simpler language reflected in the draft wording contained in paragraph 11. The Task Force would like to obtain the IAASB’s view on whether it believes the more specific statement of the practitioner’s objectives, as explained, is a better way to express those objectives. For example, “… to obtain limited assurance that no material modification of the financial statements is needed for the financial statements to be worthy of belief”, or similar wording.

16. The second term the Task Force proposes to define in the revised standard is “review procedures,” since review evidence is intended to be generated primarily through performance of certain types of review procedures that are the minimum. The procedures are intentionally limited to those considered appropriate in view of the limited assurance obtained in a review of financial statements.\(^8\) Traditionally, in countries where financial statement reviews are performed those procedures mainly comprise inquiry and analytical procedures. These review procedures may be supplemented by additional procedures when a practitioner considers that necessary in the circumstances of an individual engagement (discussed later in this paper).

17. The terms “inquiry”\(^9\) and “analytical procedures”\(^10\) have their meanings stated in the IAASB Glossary.

18. As discussed in paragraph 19 of Agenda Item 3-A, the Task Force also proposes that the term “professional judgment” in the IAASB Glossary be amended as follows:

> The application of relevant training, knowledge and experience, within the context provided by auditing, relevant professional standards\(^11\) and accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the

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\(^8\) The cost-effectiveness of reviews as a form of assurance engagement is the result of being able to express a conclusion on the financial statements, conveyed in negatively-worded terms, on the basis of the evidence derived from performance of limited procedures.

\(^9\) IAASB Glossary: “Inquiry” – consists of seeking information of knowledgeable persons, both financial and non-financial, within the entity or outside the entity.

\(^10\) IAASB Glossary: “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.

\(^11\) The IAASB Glossary defines professional standards in relation to the ISAs as “International Standards on Auditing (ISAs) and relevant ethical requirements,” and in relation to ISQC 1 as “IAASB Engagement Standards, as defined in the IAASB’s Preface to the International Standards on Quality Control, Auditing, Review and Other Assurance and Related Services, and relevant ethical requirements.”
Appropriate application guidance to explain how the practitioner exercises professional judgment in a review of financial statements will be included in the revised standard, along the same lines as given in ISA 200.A23-A27\(^\text{12}\) for audit engagements.

### Matters for IAASB Consideration

Q2. Does the IAASB agree with the proposed definitions of “review evidence” and “review procedures”? (paragraphs 11 – 16)

Q3. Does the IAASB agree with the Task Force’s view that the phrase “worthy of belief” is adequate to express, in plain language, what limited assurance means in the context of the practitioner’s objective in a review of financial statements? Does it appropriately describe limited assurance at the minimum level? (paragraphs 13-14)

Q4. Alternatively does the IAASB believe the practitioner’s objective would be expressed with greater specificity, for example as described in paragraph 15?

### Materiality in the Context of Review Engagements

19. The Task Force considered whether in the revised standard the approach on materiality should be to define the term for purposes of the standard, or to follow the same approach followed in the ISAs. ISA 320\(^\text{13}\) provides a “default” description of what materiality means in audits of financial statements where the applicable financial reporting framework used to prepare the financial statements being audited does not explicitly address materiality in context of that framework.

20. The Task Force agreed that the approach followed in the ISAs is also appropriate for the review of financial statements, because the practitioner’s consideration of what is material in relation to financial statements does not differ between audits and reviews.

21. The Task Force proposes the following explanatory material in an introductory paragraph in the revised standard, supplemented by appropriate application guidance:

   The practitioner’s conclusion on the financial statements deals with the financial statements as a whole in the context of the purpose of a review. The fact that a review is based on obtaining limited assurance does not affect the practitioner’s judgment of what is material in relation to the financial statements taken as a whole. Accordingly the practitioner’s assessment of materiality is viewed in that context.

### Matters for IAASB Consideration

Q5. Does the IAASB agree with the proposed approach for addressing materiality in reviews of financial statements?

\(^{12}\) International Standard on Auditing (ISA) 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.”

\(^{13}\) International Standard on Auditing (ISA) 320, “Materiality in Planning and Performing an Audit.”
Use of Terms “Practitioner,” “Engagement Partner,” and “Engagement Team”

22. The Task Force has developed the requirements in the revised standard to be applied by “the practitioner,” as defined in the IAASB Glossary. However, requirements concerning quality control for a compliance engagement need to align with the terms used and defined in ISQC 1, i.e., the “engagement partner” and “engagement team.” For the time being, the Task Force has used the term “practitioner” for all requirements other than those that relate to the ethical requirements and quality control requirements. The Task Force is aware that use of all these different terms in the requirements will need to be streamlined or clarified in the draft revised standard, but is not addressing that consideration in this Issues Paper.

Matters Considered by the Task Force Relating to Requirements in the Revised Standard

23. Reviews are often performed for non-public interest entities, and smaller entities, in those circumstances often by professional accountants in small and medium practices. From a policy perspective the Task Force believes that accessibility of these engagements is important. Their usefulness in a wide range of settings (including the SME context) will be enhanced if they are designed to be simple and cost-effective.

Matters for IAASB Consideration

Q6. Does the IAASB agree with the perspective applied by the Task Force to establish the requirements for review engagements in the revised standard?

24. In the remainder of this Issues Paper, The Task Force requests the IAASB’s feedback on questions related to the requirements in the revised Standard.

Ethical Requirements

25. The Task Force believes the ethical requirements should mirror those in the ISAs.

26. The Task Force proposes the following requirements:

   The engagement team shall comply with relevant ethical requirements, including those relating to independence, relating to financial statement review engagements.

   The engagement partner shall take responsibility for the engagement team’s compliance with the relevant ethical requirements in individual engagements.

Matters for IAASB Consideration

Q7. Does the IAASB agree with the proposed ethical requirements in relation to the engagement partner and the engagement team?

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14 International Standard on Quality Control (ISQC) 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.”

15 ISA 200.14: “The auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements.” (Application guidance is provided in ISA 200.A14-A17.)
Quality Control in a Review Engagement

27. The Task Force believes quality control requirements at the engagement level need to be sufficient so that practitioners perform reviews in compliance with relevant professional standards. The requirements for quality control should not impose unnecessary cost on either the practitioner or the entity involved.

28. The Task Force has identified the following proposed requirements:

   The engagement partner shall take responsibility for the overall quality on each review engagement to which that partner is assigned. This includes responsibility for:
   - Following appropriate procedures regarding the acceptance and continuance of client relationships and engagements;
   - Being satisfied that the engagement team collectively has the appropriate competence and capabilities to perform the review in accordance with professional standards and applicable legal and regulatory requirements;
   - Directing, supervising, planning and performing the review to achieve compliance with professional standards and applicable legal and regulatory requirements; and
   - Maintaining appropriate engagement documentation to provide evidence of achievement of the practitioner’s overall objectives for the review, and that the review was performed in accordance with this ISRE and relevant legal and regulatory requirements

Throughout the review 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.

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.

29. The Task Force believes there is need for application guidance to assist practitioners to comply with the requirements in each area, for example guidance on decisions about the extent of engagement documentation needed.

Matters for IAASB Consideration

Q8. Does the IAASB agree with the proposed requirements for quality control in a review engagement? Are there other requirements that the IAASB considers ought to be specified?

Considerations when Accepting the Engagement

30. The Task Force considers there are preconditions that need to be satisfied before a practitioner should agree to undertake an engagement to review financial statements, which should be addressed in the requirements of the revised standard.

31. The preconditions identified by the Task Force are modeled on the concepts set out in the IAASB’s International Framework for Assurance Engagements16 (“the Framework”), and relevant requirements contained in ISA 210.17

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16 International Framework for Assurance Engagement, paragraph 17, in particular:

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32. The Framework identifies that the engagement needs to have a rational purpose, and that scope limitations imposed by management and those charged with governance on the engagement that mean the practitioner will not be able to reach a conclusion on the financial statements cannot be accepted.

33. Following the approach of the ISAs, key steps are
   
   (a) Determining whether the financial reporting framework to be applied in the financial statements is acceptable, in view of the intended purpose of the financial statements, and the intended users; and
   
   (b) Obtaining the acceptance, and written acknowledgement, of management and those charged with governance of their responsibilities for the financial statements that are to be reviewed, and for key aspects of their preparation, and also for providing all information and access to information that the practitioner needs for purposes of the review.

34. Following direction received from the IAASB following discussion of the Issues Paper presented at the IAASB’s meeting in September 2009, the Task Force proposed to include pre-conditions about factors that would significantly affect an entity’s ability to produce reliable financial information, or financial statements. Those situations are when the practitioner’s preliminary knowledge of the engagement circumstances causes the practitioner to believe that:

   • The entity’s accounting system is such that information needed to apply review procedures to perform the engagement is likely to be unavailable or unreliable.
   
   • Management or those charged with governance of the entity may lack integrity.

In these situations, the Task Force believes that performance of a review, with its approach of using limited procedures as a basis to reach a conclusion on the financial statements, involves an unacceptably high level of engagement risk for practitioners. The existence of

“... A practitioner accepts an assurance engagement only where the practitioner’s preliminary knowledge of the engagement circumstance indicates that:

... (b) The engagement exhibits all of the following characteristics:

... (ii) The criteria to be used are suitable and are available to the intended users; (iii) The practitioner has access to sufficient appropriate evidence to support the practitioner’s conclusion; ... (v) The practitioner is satisfied that there is a rational purpose for the engagement. If there is a significant limitation on the scope of the practitioner’s work (see paragraph 55), it may be unlikely that the engagement has a rational purpose.

The Framework explains in paragraph 55 that “An unqualified conclusion is not appropriate for [either a reasonable assurance or a limited assurance engagement] in the case of a material limitation on the scope of the practitioner’s work, that is when: (a) circumstances prevent the practitioner from obtaining evidence required to reduce assurance engagement risk to the appropriate level; or (b) The responsible party of the engaging party imposes a restriction that prevents the practitioner from obtaining evidence required to reduce assurance engagement risk to the appropriate level.”

17 International Standard on Auditing (ISA) 210, “Agreeing the Terms of Audit Engagements” (ISA 210.06-08).
such risk means that a review should not be undertaken because of the unacceptable risk of deriving an inappropriate conclusion, or of not being able to complete the engagement.

35. The Task Force has identified the following proposed requirements regarding preconditions practitioners need to be able to satisfy as a condition of accepting a review engagement:

(a) As preconditions to accepting a proposed review engagement the practitioner shall:
   (b) Be satisfied that there is a rational purpose for the engagement;
   (c) In a review of special purpose financial statements, obtain an understanding of the purpose for which the financial statements are prepared, and the intended users of the financial statements;
   (d) Determine whether the financial reporting framework to be applied by management in the preparation of the financial statements is acceptable, and
   (e) Obtain the agreement of management and, where appropriate, those charged with governance that they acknowledge and understand that they have the following overall responsibilities that are fundamental to the conduct of the review in accordance with this ISRE. That is, responsibility for:
      (i) Selection of the applicable financial reporting framework to be applied to prepare the financial statements that is acceptable in view of the purpose of the financial statements; and preparation of the financial statements in accordance with the applicable financial reporting framework, including their fair presentation when a fair presentation framework is used;
      (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; and
      (iii) Providing 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 review evidence.

Factors Affecting Engagement Acceptance

If the preconditions for a review engagement (above) are not present, the practitioner shall discuss the matter with management or, where appropriate, those charged with governance. Unless required by law or regulation, the practitioner shall not accept the proposed review engagement if:

(a) The practitioner’s preliminary knowledge of the engagement circumstances indicates that:
   (i) The financial reporting framework to be used in the preparation of the financial statements is not acceptable, or
   (ii) The entity’s accounting system is such that information needed to apply review procedures to perform the review engagement is likely to be unavailable or unreliable, or
   (iii) Management or those charged with governance of the entity may lack integrity.
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(b) The agreement referred to in paragraph [insert relevant reference] has not been obtained.

(c) Management or those charged with governance impose a limitation on the scope of the practitioner’s work for the review engagement that the practitioner believes will result in inability to reach a conclusion on the financial statements.

**Matters for IAASB Consideration**

Q9. Does the IAASB agree with the proposed requirements regarding the preconditions for a review of financial statements? Are there other requirements or pre-conditions that ought to be specified?

**Agreeing the Terms of Engagement**

36. The extant standard does not address the applicable financial reporting framework that is to be applied as a matter to be agreed in the engagement terms. Following the approach in ISA 210, the Task Force proposes this should be a part of the engagement terms, both for clarity and also as a matter of understanding the respective responsibilities of the engaging parties (ordinarily the practitioner and either management or those charged with governance).

37. The extant standard does not address the circumstance where an entity for which a review is being performed requests a change of engagement to a non-assurance engagement. The Task Force believes that the direction provided in the Framework\(^{18}\) on this point should be reflected in the requirements on engagement acceptance. Following requirements reflected in existing national standards on reviews, the Task Force considers that a request to change the nature of the engagement to avoid receiving a modified conclusion in a practitioner’s report on an entity’s financial statements is an example of a situation where such a request would not have a reasonable justification.

38. The Task Force recognizes that in some circumstances there may be more than two parties to the engagement. For example a third party may require the financial information to be reviewed, which could mean that the engagement terms need to also be agreed with the third party. This situation will be addressed further in additional explanatory material. For simplicity however the standard will be written to address the ordinary circumstance where the practitioner and either management or those charged with governance, as appropriate, are the parties to the engagement.

39. The Task Force has identified the following requirements for a practitioner regarding agreement of the terms of a review engagement.

   The practitioner shall agree the terms of the review with management or those charged with governance as appropriate.

   The agreed terms of engagement shall be recorded in an engagement letter or other suitable form of written agreement, and shall include:

   (a) The objective and scope of the review of the financial statements;

   (b) The responsibilities of the practitioner;

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\(^{18}\) Framework, paragraph 19: “Having accepted an assurance engagement, a practitioner may not change that engagement to a non-assurance engagement … without reasonable justification.”
(c) The responsibilities of management, including those in paragraph [Insert paragraph reference];

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

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

(f) 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.

If the terms of the review engagement are changed, 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.

Recurring Engagements

On recurring review engagements, the practitioner shall assess whether circumstances, including changes in the engagement acceptance considerations in paragraphs [Insert reference], require the terms of engagement to be revised and whether there is a need to remind management or those charged with governance, as appropriate, of the existing terms of the engagement.

Acceptance of a Change in the Terms of the Review Engagement

The practitioner shall not, prior to completing the review engagement, agree to change the review engagement to an engagement that conveys no assurance, where there is no reasonable justification for doing so.

Matters for IAASB Consideration

Q10. Does the IAASB agree with the proposed requirements in relation to acceptance of review engagements?

The Practitioner’s Knowledge and Understanding

40. The IAASB provided direction to the Task Force following discussion of the Issues Paper presented at the September 2009 IAASB meeting, about the purposes underlying the requirement for a practitioner to obtain an understanding of the entity, and its environment, sufficient to be able to perform the review with competence and due care, as appropriate for a limited assurance engagement.

41. The purposes identified are to be able to identify areas in the financial statements where material misstatements are likely to occur, and therefore be able to focus the review procedures on those areas. This also recognizes one of the key distinctions between audits and reviews, which is that a review does not require the practitioner to undertake a comprehensive risk assessment to perform the review, albeit that the review needs to be performed on a “risk-informed” basis.

42. The nature and scope of the practitioner’s knowledge and understanding is necessarily deeper than that which is necessary to perform a compilation of financial statements, because it must be sufficient to be able to identify areas where risk of material misstatement exist, or are likely to exist in the financial statements prepared by management applying the financial reporting framework used.
43. The Task Force believes that the following requirements would position the practitioner to properly address this aspect of a review engagement:

In planning and performing the review, the practitioner shall have or obtain:

- Knowledge of the entity and its environment, including the entity’s accounting system and accounting records; and
- An understanding of the applicable financial reporting framework, including its application in the industry in which the entity operates,

sufficient to be able to identify areas where risks of material misstatement are likely to exist in the financial statements, design review procedures that are focused on those areas and evaluate the results of those procedures.

### Matters for IAASB Consideration

Q11. Does the IAASB agree with the Task Force’s view on the proposed requirements regarding the practitioner’s:

(a) Knowledge and understanding of the entity and its environment?

(b) Understanding of the applicable financial reporting framework?

### Review Procedures

44. The procedures the practitioner undertakes for the review drive the result of obtaining limited assurance on the financial statements. The proposed standard defines what review procedures are, as a minimum (see paragraph 11).

45. The practitioner needs to exercise considerable professional judgment in designing the review procedures, and in evaluating the results obtained from those procedures.

46. As mentioned in paragraph 41 the design of review procedures is “risk-informed” but, in line with the limited assurance nature of the engagement, they are always intended to be limited, though also sufficient for the practitioner to be able to conclude on the financial statements taken as a whole on the basis of having obtained limited assurance.

47. The Task Force proposes the following requirements in the revised standard regarding the design and performance of review procedures:

The nature timing and extent of the review procedures shall be determined by the practitioner having regard to the practitioner’s knowledge and understanding described in paragraph [insert relevant reference], and the requirements of this ISRE.

The practitioner shall determine the review procedures needed to be able to form a conclusion on the financial statements as a whole, and shall focus the procedures on those areas where, based on the practitioner’s understanding in paragraph [insert relevant reference], the practitioner believes there is, or is likely to be risk of material misstatement occurring in the financial statements.

### Matters for IAASB Consideration

Q12. Does the IAASB agree with proposed requirements relating to review procedures?
Practitioner’s Response to Likely Material Misstatements in the Financial Statements

48. The Task Force proposes the following approach when, having performed review procedures and evaluated the results, the practitioner considers there are indications that material misstatements exist, or are likely to exist in the financial statements, or that the financial statements are likely to be misleading (where a compliance framework is used):

(a) Perform additional procedures (not necessarily limited to additional review procedures) as the practitioner deems necessary to obtain limited assurance that the financial statements, taken as a whole, are worthy of belief. These procedures include requesting such further information from management or those charged with governance as the practitioner deems necessary.

(b) The practitioner decides what additional procedures are needed to reach this overall conclusion. Following the limited assurance nature of the engagement, the practitioner does not have to obtain audit-level assurance (“reasonable assurance”) that material misstatements exist or do not exist in affected account balances or items reflected in the financial statements, following indications that misstatements are likely to exist. If the practitioner considers that additional procedures are needed that go beyond inquiry and analytical review, for example to verify an account balance or item contained in the financial statements, that does mean the review becomes an audit.

(c) The practitioner makes a judgment about what additional procedures are needed only for the purpose of being able to conclude in accordance with the overall purpose of the engagement – to obtain limited assurance.

49. The Task Force’s rationale for following this approach is that if in the alternative the practitioner is required to “track down” material misstatements following indications that they may exist, to the extent required in a financial statement audit, the nature of the engagement would shift away from the underlying limited assurance objective that characterizes the review. Under the Task Force’s suggested approach there are two possible outcomes:

(a) Additional procedures performed resolve the question of whether a material misstatement exists to the practitioner’s satisfaction, so that the practitioner is able to form the conclusion that the financial statements as a whole are worthy of belief. The practitioner is able to report a review conclusion on the financial statements as a whole either:
   (i) Without modification, or
   (ii) With modification, if management or those charged with governance do not amend the financial statements to remove a material misstatement that the practitioner believes exists in the financial statements.

(b) Additional procedures performed do not resolve the question of whether or not a likely material misstatement actually exists in the financial statements. Unless management provides additional information, where possible, to assist the practitioner to establish whether or not the financial statements are materially misstated, to the practitioner’s satisfaction, the outcome is that the practitioner is unable complete the review. Accordingly the practitioner will not provide a report for the engagement. The question of “how much” additional procedures are performed is a question of judgment for the practitioner, and should be decided in the light of the results of the practitioner’s
communications with management and those charged with governance about the likely material misstatement. If it is not possible for management to provide additional information to the practitioner in such situations, the final result is that the practitioner cannot reach a conclusion on the financial statements, and no report is provided.

50. One view expressed in the Task Force discussion is that, when results of the review procedures indicate that a material misstatement is likely to exist in the financial statements, the practitioner must perform additional procedures with respect to affected item(s) in the financial statements until one of the following occurs:

(a) The practitioner concludes it is not likely that the material misstatement exists; or
(b) The practitioner forms the view that the financial statements do contain a material misstatement; or
(c) The practitioner determines that sufficient appropriate evidence cannot be obtained to enable the practitioner to form a view either way.

If (a) occurs the practitioner need not perform any further procedures. However, to the extent that the additional procedures indicate that a material misstatement of the financial statements continues to be likely (b), the practitioner must continue performing additional procedures until the practitioner is able to form a view about whether the financial statements are materially misstated. This is based on the argument that when a practitioner issues a modified conclusion in a review report, the practitioner expresses a positive opinion based on reasonable assurance that the financial statements are materially misstated.

51. The majority view of the Task Force is that the over-arching, limited assurance nature of the engagement prevails. If, on the basis of performing limited procedures (including such additional procedures as the practitioner deems necessary) the practitioner is unable to form a view about whether or not a likely material misstatement actually exists, and so is unable to form the conclusion that nothing has come to the practitioner’s attention to cause the practitioner to conclude that the financial statements are not prepared in accordance with the applicable financial reporting framework in all material respects, this amounts to an inability to complete the review.

52. Members of the Task Force argue that, in practice, faced with an indication that one or more material misstatements are likely to exist in the financial statements, the practitioner’s first action will be to discuss that situation with management, or those charged with governance as appropriate. The practitioner will inform management of the need for more information to resolve the question of whether a material misstatement exists, and that the practitioner will also perform additional procedures for that purpose. An inevitable consequence is that the cost of the performing the review will increase due to the greater work effort required of the practitioner.

53. If the practitioner cannot satisfactorily resolve questions surrounding likely material misstatement through evidence obtained from additional information or through additional procedures, management is faced with:

(a) The practitioner’s withdrawal from the engagement without providing a report, due to inability to obtain sufficient, appropriate review evidence to form a conclusion on the financial statements; or
(b) Significantly increased costs if the practitioner extends the work for the review to the extent needed to establish whether one or more material misstatements actually exist.

At this point in the engagement management and those charged with governance have a significant incentive to provide whatever assistance is possible to facilitate the practitioner’s ability to form a conclusion on the financial statements, and to be able to report.

54. The Task Force believes the requirement to withdraw if the practitioner is unable to form a conclusion is a powerful incentive for management and those charged with governance to assist the practitioner to resolve questions surrounding likely material misstatements. This is preferable to having a requirement in the revised standard that would mean practitioners are always required to follow up likely material misstatements to establish their existence in the way that would be done in an audit.

55. In line with the above arguments, the Task Force proposes the following requirements for the revised standard:

- **Practitioner’s Response When Review Procedures Indicate Likelihood of Material Misstatements in the Financial Statements**

  When the practitioner believes the financial statements are likely to be materially misstated, the practitioner shall perform such additional procedures, including requesting further information from management or those charged with governance, as the practitioner deems necessary to obtain limited assurance that the financial statements taken as a whole, are worthy of belief.

  If, following performance of additional procedures, the practitioner believes the financial statements are materially misstated, the practitioner shall consider the effect of the practitioner’s report to be issued on those financial statements.

- **Circumstances When Modification of the Practitioner’s Conclusion is Required**

  The practitioner shall modify the conclusion in the report when, based on the work performed for the review, matters have come to the practitioner's attention causing the practitioner to believe that:

  - (a) The financial statements do not comply, in all material respects, with the applicable financial reporting framework, where a compliance framework is used, or
  - (b) The financial statements are not fairly presented, or do not give a true and fair view, in all material respects, in accordance with the applicable financial reporting framework, when a fair presentation framework is used.

- **Consequence of an Inability to Obtain Sufficient Appropriate Review Evidence After the Practitioner has Accepted the Engagement**

  The practitioner shall withdraw from the engagement, where permitted under applicable laws or regulations, when the practitioner is unable to:

  - (a) Obtain sufficient appropriate evidence in accordance with this ISRE, to be able to conclude, on the basis of limited assurance, that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework, [or
  - (b) Obtain written representations from management or those charged with governance, as appropriate ….]

  In such circumstances the practitioner is unable to complete the review, and accordingly is unable to reach a conclusion and report. The practitioner shall withdraw from the engagement informing those charged governance of the reasons for withdrawal.
If withdrawal from the engagement is not permitted under applicable law or regulation, the practitioner shall provide a report on the engagement stating that the practitioner was unable to complete the review, and accordingly is unable to express a conclusion on the financial statements.

**Matters for IAASB Consideration**

**Q13.** Does the IAASB believe the proposed requirements in paragraph 55 are appropriate, regarding the practitioner’s response when:

(a) The review procedures indicate the likelihood of material misstatements in the financial statements (as explained in paragraphs 48-49)?

(b) The practitioner is unable to obtain sufficient appropriate review evidence to complete the review engagement (as explained in paragraphs 51-54)?

**Q14.** Is the IAASB in agreement with the Task Force’s view that the revised standard should not require the practitioner to obtain audit-level evidence where the review procedures indicate a likely material misstatement in the financial statements, to be able to form a conclusion on the financial statements and be able to report (paragraph 54)?

**Q15.** If sufficient appropriate evidence cannot be obtained through additional procedures or additional information provided by management to resolve a question about whether or not a likely material misstatement actually exists (which would mean the practitioner is unable to complete the review), does the IAASB consider it appropriate that the practitioner should not provide a report on the financial statements and should withdraw from the engagement (unless not permitted under applicable laws and regulations)?

**Q16.** Alternatively, does the IAASB consider that the practitioner should issue a report that contains a disclaimer of the practitioner’s conclusion because the practitioner has not been able to complete the review?

**Written Representations**

56. Similar to the approach for an audit, the review engagement is predicated on acceptance and acknowledgement by management, or those charged with governance as appropriate, of management’s responsibility for the financial statements and their preparation in accordance with the applicable financial reporting framework. This acknowledgement is a pre-condition for accepting the engagement, and is backed by written representations provided to the practitioner at the conclusion of the engagement.

57. The Task Force proposes the following requirements in the revised standard:

The practitioner shall request written representations from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned, or those charged with governance as appropriate.

The practitioner shall request a written representation that:

(a) Management or those charged with governance, as appropriate, has:

(i) Fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant, their fair presentation, as set out in the terms of the engagement, and
Provided the practitioner with all information that management is aware is relevant to the preparation of the financial statements, as agreed in the terms of the engagement; and

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

Management’s responsibilities shall be described in the written representations required … in the manner in which these responsibilities are described in the terms of the engagement.

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

The Practitioner’s Response When Written Representations Required from Management are Not Obtained.

58. The Task Force believes that if management does not provide the written representations the practitioner requires, that would constitute a limitation on the scope of the engagement. Management’s written representations at the conclusion of the engagement are a key part of the evidence that forms the basis for expression of the practitioner’s conclusion.

59. In that situation the practitioner has not completed the review engagement, and so cannot form a conclusion or issue a report. The Task Force proposes that the revised standard should require the practitioner to withdraw from the engagement (unless not permitted under applicable laws and regulations).

Matters for IAASB Consideration

Q17. Does the IAASB agree with the proposed requirements regarding written representations?

Q18. Does the IAASB agree with the Task Force’s view that failure by management or those charged with governance, as appropriate, to provide written representations required by the practitioner for the review would mean the engagement is not able to be completed, and the practitioner would not be able to report (paragraphs 58-59)?

Reporting Considerations

60. The Task Force considered the following aspects of the communications and disclosures in the practitioner’s report on a review engagement:

• Elements of the practitioner’s report
• Description of the review, and the work performed
• Communication of the practitioner’s conclusion in the report
• Modified conclusions.

Elements of the Practitioner’s Report

61. The Task Force believes the practitioner’s report should be required to include the following elements:
Report title;\(^{19}\)

Addressee(s);

- Introductory paragraph identifying the financial statements, the period they cover, refers to the summary of significant accounting policies and other explanatory information, and stating that the financial statements have been reviewed;
- Sections describing the responsibilities of management, or those charged with governance as appropriate, regarding the financial statements, and the practitioner’s responsibilities with respect to the review;
- A description of the nature of a review and the work performed, including a statement that an audit has not been performed and the practitioner does not express an audit opinion on the financial statements;
- A section that contains the practitioner’s expression of the conclusion on the financial statements, or a modified conclusion where appropriate; and
- If the practitioner’s conclusion is modified, a “basis for modification” paragraph immediately before the paragraph that contains the practitioner’s conclusion.

**Description of the Review**

62. The Task Force agrees that the report should state that a review has been performed and provide a brief description of work performed, including its limitations, as follows:

   A description of the nature of a review, including a statement that:

   (i) A review is limited primarily to inquiry and analytical procedures; and

   (ii) An audit has not been performed, and that had an audit been performed the practitioner may have uncovered material misstatements that could exist in the financial statements that were reviewed, and accordingly the practitioner does not express an audit opinion on the financial statements.

**Form of the Practitioner’s Conclusion**

63. The Task Force agrees that the form of the practitioner’s unmodified conclusion expressed on the financial statements in the report should be as follows:

   The review report shall contain a written conclusion on the financial statements expressed in negative form. That is, for a report without modifications, that nothing has come to the practitioner’s attention that causes the practitioner to believe the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework [i.e. for a compliance framework].

   If the financial reporting framework used is a fair presentation framework, the conclusion shall state that, based on the review, nothing has come to the practitioner’s attention that causes the practitioner

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\(^{19}\) It may be appropriate to use the term “independent assurance practitioner” or “independent practitioner” in the title to distinguish the practitioner’s report from reports that might be issued by others, such as officers of the entity, or from the reports of other practitioners who may not have to abide by the same ethical requirements as an independent practitioner.
to believe that the financial statements are not fairly presented in all material respects, in accordance with the applicable financial reporting framework, or give a true and fair view.

Matters for the IAASB’s Consideration

Q19. Does the IAASB agree with the proposed requirements regarding:

(a) The elements of the practitioner’s report (paragraph 61)?
(b) The description of the review in the report (paragraph 62)?
(c) The form of the practitioner’s conclusion provided the report (paragraph 63)?

Modified Conclusions

64. The Task Force has considered reporting a modified conclusion for a review of financial statements, but has not at this stage come to a on whether an adverse conclusion should be used in review reports.

65. Some Task Force members believe that when a practitioner identifies a material misstatement arising from a disagreement with management or those charged with governance regarding the financial statements (for example, in relation to application of an accounting policy management has selected), the effect of which is so material and pervasive to the financial statements that the practitioner concludes that qualification of the conclusion is not sufficient to report the degree of misstatement of the financial statements, that it is appropriate to report an adverse conclusion on the financial statements.

66. Other views expressed in the Task Force’s discussions are that expressions of an adverse conclusion should not be permitted because they are not appropriate in limited assurance engagements. Alternatively they may actually be needed (permitted), but only in certain conditions (for example, to address a departure from the applicable financial reporting framework in the financial statements).

67. The question of whether reporting an adverse conclusion in a review of financial statements should be permitted should be determined on the basis of whether or not such conclusions are likely to have any usefulness for users of financial statements. If the practitioner withdraws from an engagement without reporting when the practitioner is able to conclude that the financial statements are materially misstated to the extent that would warrant an adverse conclusion, is not reporting that information to users an appropriate response from the practitioner, or would users expect the practitioner to report that information in the review report? If the practitioner does report an adverse conclusion on the financial statements in that situation, what is the likely impact on the entity and on users of the financial statements, and would such reports serve any meaningful purpose? These questions are still being considered by the Task Force. However the Task Force welcomes any preliminary views the Board may wish to convey on this issues at this stage.

68. The proposed requirements in the revised standard for modified conclusions set out in paragraphs 69 and 70 reflect the Task Force’s view on reporting a qualified conclusion on the financial statements. The draft wording on requirements concerning adverse conclusions is shown in brackets [ ], to indicate that those draft requirements are still under
consideration by the Task Force. An example report that illustrates how an adverse conclusion would be reported is provided in paragraph 71 (Example 2).

69. The Task Force proposes the following requirements concerning modification of a practitioner’s conclusion on financial statements in a review:

   The practitioner shall modify the conclusion in the report when, based on the work performed for the review matters have come to the practitioner's attention which cause the practitioner to believe that:

   (a) The financial statements do not comply, in all material respects, with the applicable financial reporting framework, where a compliance framework is used, or

   (b) The financial statements are not fairly presented, or do not give a true and fair view, in all material respects, in accordance with the applicable financial reporting framework, when a fair presentation framework is used.

   [When the effect of the matter that causes the practitioner to modify the conclusion on the financial statements is so material and pervasive to the financial statements that the practitioner concludes that a qualification of the conclusion is not sufficient to report the degree of misstatement of the financial statements, the practitioner gives an adverse conclusion in the report].

   If the modification of the conclusion relates to specific amounts in the financial statements (including quantitative disclosures), the practitioner shall include in the basis for modification paragraph a description and quantification of the financial effects of the matter giving rise to the modification on the financial statements, unless impracticable. If it is not possible to quantify the financial effects, the practitioner shall so state in the basis for modification paragraph.

   If the modification of the conclusion relates to narrative disclosures, the practitioner shall include in the basis for modification paragraph an explanation of how the disclosures are misstated.

70. The Task Force agreed the following requirements for reporting modified conclusions in the practitioner’s report:

   A qualified conclusion:

   The practitioner’s conclusion shall state that based on the review, except for the effects of the matter(s) described in the “Basis for Qualified Conclusion” paragraph:

   (i) The financial statements present fairly (or give a true and fair view), in accordance with the applicable financial reporting framework, where a fair presentation framework is used; or

   (ii) The financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework, where a compliance framework is used.

   [An adverse conclusion:

   The practitioner’s conclusion shall state that because of the significance of the matter(s) described in the “Basis for Adverse Conclusion” paragraph, based on the review the financial statements do not:

   (i) Present fairly (or give a true and fair view), in accordance with the applicable financial reporting framework, where a fair presentation framework is used; or

   (ii) Comply with the applicable financial reporting framework, where a compliance framework is used.]
Matters for the IAASB’s Consideration

Q20. Does the IAASB agree with the proposed requirements regarding modification of the practitioner’s conclusion and the form of such conclusions in the practitioner’s report?

Q21. Does the IAASB consider that a practitioner should be able to report an adverse conclusion on financial statements that the practitioner has reviewed when the practitioner concludes, on the basis of limited assurance, that the financial statements are materially misstated to an extent that requires an adverse conclusion, to adequately report the effect of the misstatement to users of the financial statements?

71. The Task Force provides two examples of a review report below (the first illustrates a report with an unmodified conclusion, and the second a report with an adverse conclusion). The Task Force would like to obtain the IAASB’s reactions to the form of the report provided for a review of financial statements, as illustrated in these examples.

Example 1:
Report for a review of general purpose financial statements with an unmodified conclusion (Fair Presentation Framework)

INDEPENDENT PRACTITIONER’S REVIEW REPORT

To [appropriate addressee(s)]

We have reviewed the accompanying 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, applying [insert name of applicable general purpose financial reporting framework, e.g. International Financial Reporting Standards].

Management’s Responsibility for the Financial Statements

The management of [name of entity] is responsible for the preparation and fair presentation of these financial statements in accordance with [insert name of the applicable financial reporting framework]. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our Responsibility

Our responsibility is to express a conclusion on these financial statements based on our review. We conducted our review in accordance with International Standard on Review Engagements ISRE 2400 Engagements to Review Financial Statements, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the financial statements are not presented fairly, in all material respects, in accordance with [insert name of the applicable financial reporting framework]. ISRE 2400 requires us to comply with the requirements of the Code of Conduct of Professional Accountants issued by the International Ethics Standards Board for Professional Accountants.

A review of financial statements comprises performance of limited procedures in relation to these financial statements that are primarily inquiries of management and other persons with responsibility for financial and

20 Or those charged with governance, as appropriate.
accounting matters, and analytical procedures. A review is substantially less in scope than an audit conducted in accordance with the International Standards on Auditing. Had an audit been performed we may have uncovered material misstatements in these financial statements not identified through our review. Accordingly, we do not express an audit opinion on these financial statements.

**Conclusion**

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that these financial statements do not present fairly, in all material respects, [or “give a true and fair view of”] the financial position of the entity as at [date], and of its financial performance and its cash flows for the [period] ended on that date, in accordance with [the applicable financial reporting framework].

[Practitioner’s signature]

[Date of the Practitioner’s report]

[Practitioner’s address]

**Example 2:**

**Report for a review of General Purpose Financial Statements with an adverse conclusion**

(Fair Presentation Framework) (and see comments provided in paragraphs 63-69)

**INDEPENDENT PRACTITIONER’S REVIEW REPORT**

To [appropriate addressee(s)]

We have reviewed the accompanying financial statements of ABC Company, which comprise the balance sheet as at December 31, 20X1, and the income statements, 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, applying [insert name of applicable general purpose financial reporting framework, e.g. International Financial Reporting Standards].

**Management’s Responsibility for the Financial Statements**

The management of [name of entity] is responsible for the preparation and fair presentation of these financial statements in accordance with [insert name of the applicable financial reporting framework]. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Our Responsibility**

Our responsibility is to express a conclusion on these financial statements based on our review. We conducted our review in accordance with International Standard on Review Engagements ISRE 2400 Engagements to Review Financial Statements, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the financial statements are not presented fairly, in all material respects, in accordance with [insert name of the applicable financial reporting framework]. ISRE 2400 requires us to comply with the requirements of the Code of Conduct of Professional Accountants issued by the International Ethics Standards Board for Professional Accountants.

A review of financial statements comprises performance of limited procedures in relation to these financial statements, which are primarily inquiries of management and other persons with responsibility for financial and accounting matters, and analytical procedures. A review is substantially less in scope than an audit.
conducted in accordance with the International Standards on Auditing. Had an audit been performed we may have uncovered material misstatements in these financial statements not identified through our review. Accordingly, we do not express an audit opinion on these financial statements.

Basis for Adverse Conclusion

Commencing this period, management has ceased to consolidate the financial statements of its subsidiary companies since the management considers consolidation to be inappropriate because of the existence of new substantial non-controlling interests. This is not in accordance with [the applicable financial reporting framework]. Had consolidated financial statements been prepared, virtually every account in the financial statements would have been materially different.

Adverse Conclusion

Our review indicates, because [the entity’s] investment in subsidiary companies is not accounted for on a consolidation basis, as described in the preceding paragraph, these financial statements do not present fairly, in all material respects, [or “give a true and fair view of”] the financial position of [the entity] as at [date], and of its financial performance and its cash flows for the [period] ended on that date, in accordance with [the applicable financial reporting framework].

[Practitioner’s signature]

[Date of the Practitioner’s review report]

[Practitioner’s address]