

Limited Assurance Engagements for Practitioners

An introduction to the IFAC *Guide to Review
Engagements*

Contents of the Guide



Introduction

ISRE 2400 (Revised)



Review Engagement – 4
elements:

Accepting, Planning, Performing,
Reporting



Checklists & Forms



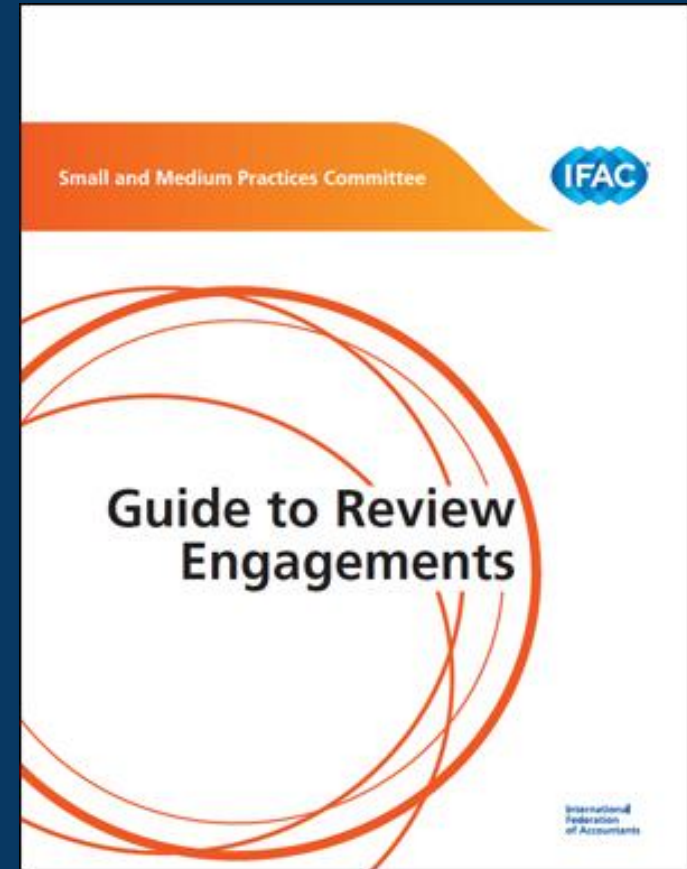
Marketing



IFAC Resources

Introduction

- International Standard on Review Engagements (ISRE) 2400 (Revised)
- The Guide to Review Engagements available on www.ifac.org/SMP



Guide to Review Engagements

- An introduction to the *Guide to Review Engagements*

Benefits	Direct extracts from ISRE 2400 (Revised)
	Illustrated examples and consider points including efficiency suggestions
	Checklists and Forms for adaptation
	Day to day reference tool for staff – can be used for training
	Ensure SMP staff develop a consistent approach

Summary of Review Engagements

Benefits	Commentary
Alternative to Audit	Audit exemptions for SMEs are becoming more prevalent.
Lower Cost	The cost of performing an audit is increasing. Review engagements normally cost considerably less.
Limited Assurance	The review engagement is ideal for SMEs (not requiring a statutory audit) that still want some degree of independent assurance to increase the credibility of their F/S.
Flexibility with Consistency	A review engagement using ISRE 2400 (Revised): <ul style="list-style-type: none"><li data-bbox="817 958 2232 1122">• Consists primarily of inquiry and analysis, allowing practitioners to rely more on their professional judgment and experience rather than detailed substantive testing.<li data-bbox="817 1136 2130 1186">• Ensures a consistent work effort on all such engagements.

Comparison of the Three Engagements

- An introduction to the *Guide to Review Engagements*

Engagement	Standards	Assurance	Work Efforts	Report
Audit	ISAs	Reasonable	Risk assessment and procedures that respond to the risks identified	Positive opinion
Review	ISRE 2400	Limited	Primarily inquiry and analysis	Conclusion on what came to the practitioner's attention
Compilation	ISRS 4410	None	Assisting management prepare financial information	Report stating no assurance is provided

The Four Elements

- An introduction to the *Guide to Review Engagements*

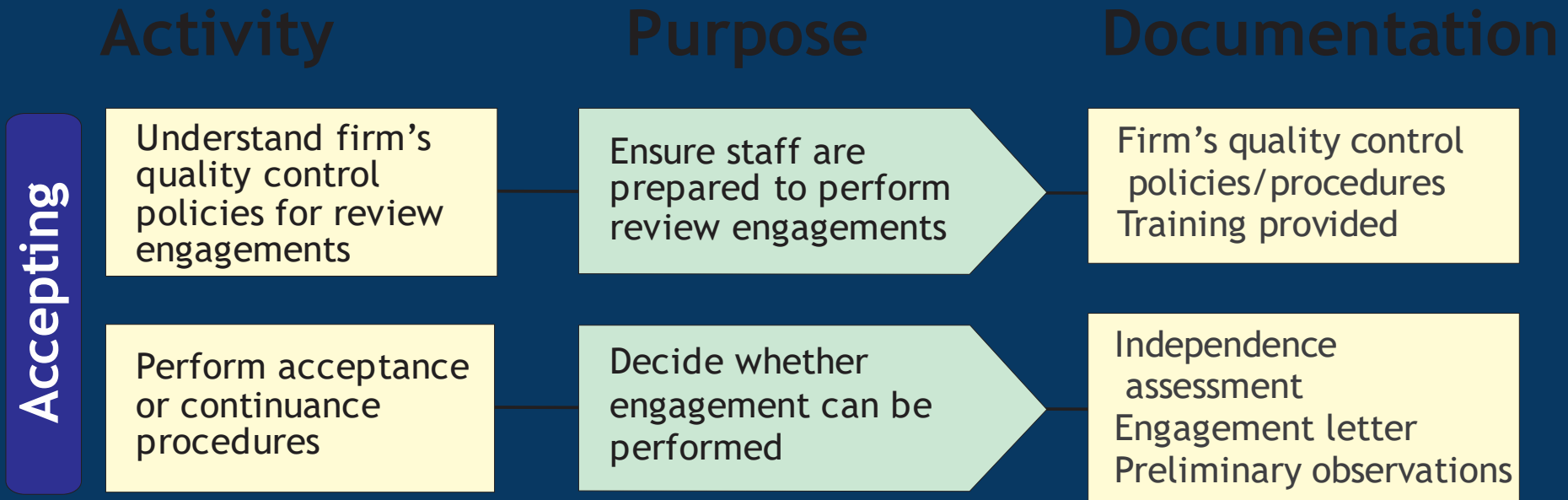
Accepting

Planning

Performing

Reporting

Accepting



ISRE 2400 (Revised) Pre-requisites

- **Firm to comply with:**
 - ISQC1* [2400.4]
 - *Quality control policies and procedures*
 - IESBA Code, Parts A and B [2400.21]
 - *Independence and ethics*
- **Engagement partner requires competence in:**
 - Assurance skills and techniques [2400.24]
 - Financial reporting [2400.24]
- ❖ Note that ISQM 1 is effective by December 15, 2022. This guide will be updated accordingly later in 2022 to reflect ISQM 1, which replaces ISQC 1

Engagement Acceptance

Two preliminary questions to ask about the engagement:

Does a Rational Purpose Exist?	Management wants a review engagement to reduce costs BUT an audit is required by law. = <i>Not a rational purpose.</i>
	A bank requests limited assurance with regard to a loan. = <i>A rational purpose.</i>
Is the Engagement Appropriate in the Circumstances?	Suspicious exist that engagement is being used to conceal or minimize facts/information that would have been more fully disclosed or resulted in a modified opinion if an audit had been performed. = <i>Review engagement not appropriate.</i>

Agree Terms of Engagement

Preconditions for Accepting a Review Engagement

An acceptable financial reporting framework for preparing the F/S

Management acknowledges/understands the following responsibilities:

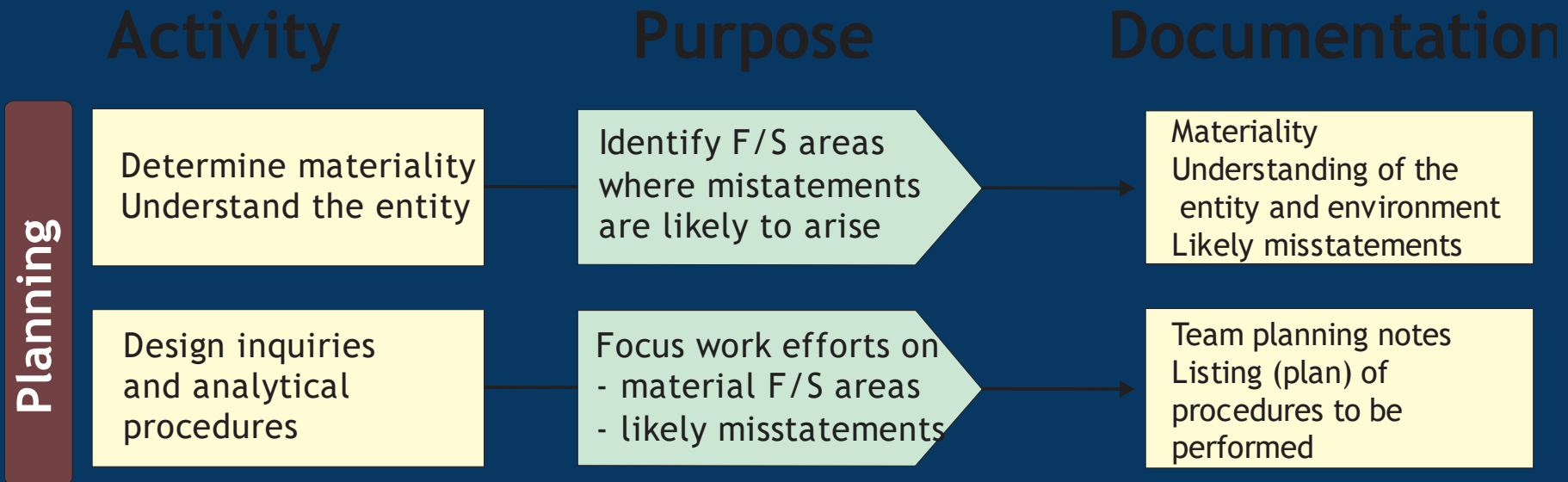
To **comply** with the applicable financial reporting framework

For such **internal control** as is necessary for the F/S to be free from material misstatement (*error or fraud*)

To **provide** the practitioner with:

- Access to all relevant information
- Additional information as requested
- Unrestricted access to personnel

Planning



Determine Materiality

Determine materiality for the F/S as a whole

Base the decision on the following using professional judgment:

Users	Who are the intended user groups for the F/S? (Such as shareholders, members, and lending institutions.)
User Interests	What are the common financial information needs of the intended users? (Such as revenues, profitability, and assets.)
AFRF	What are the materiality requirements in the appropriate financial reporting framework? (Such as IFRS for SMEs.)
Tolerable Misstatement	What level of misstatement in the F/S would be material to the intended users? (Consider both quantitative and qualitative factors.)

Application of Materiality

Use of Materiality in a Review

Determining what F/S areas are material. [2400.47(a)]

Identifying areas in the F/S where material misstatements are likely to arise. [2400.45]

Communicating to the engagement team members and TCWG. [2400.43]

Providing context for evaluating results and assessing the need for additional procedures.

Evaluating the nature/impact of identified misstatements.

Assessing new information that would require a revision to materiality.

Scope of Review Engagement

- **INQUIRY AND ANALYSIS** directed to:
 - **ALL** F/S areas that exceed materiality
 - Areas where material misstatements are likely to arise
 - Specific areas [2400.48]
- *Plus*
ADDITIONAL PROCEDURES where the practitioner becomes aware that the F/S may be materially misstated.

High emphasis is placed on the use of professional judgment.

Assurance Skills

- In determining procedures to be performed, high emphasis is placed on the use of **professional judgment** and ... [2400.22-23]

Professional Skepticism

An essential ATTITUDE to enhance ability to:

Identify/respond
to conditions
that indicate
possible
misstatement

**Critically
assess**
information
and evidence
obtained

Remain alert
for evidence that:
- is contradictory or
- questions reliability
of management or
TCWG representations

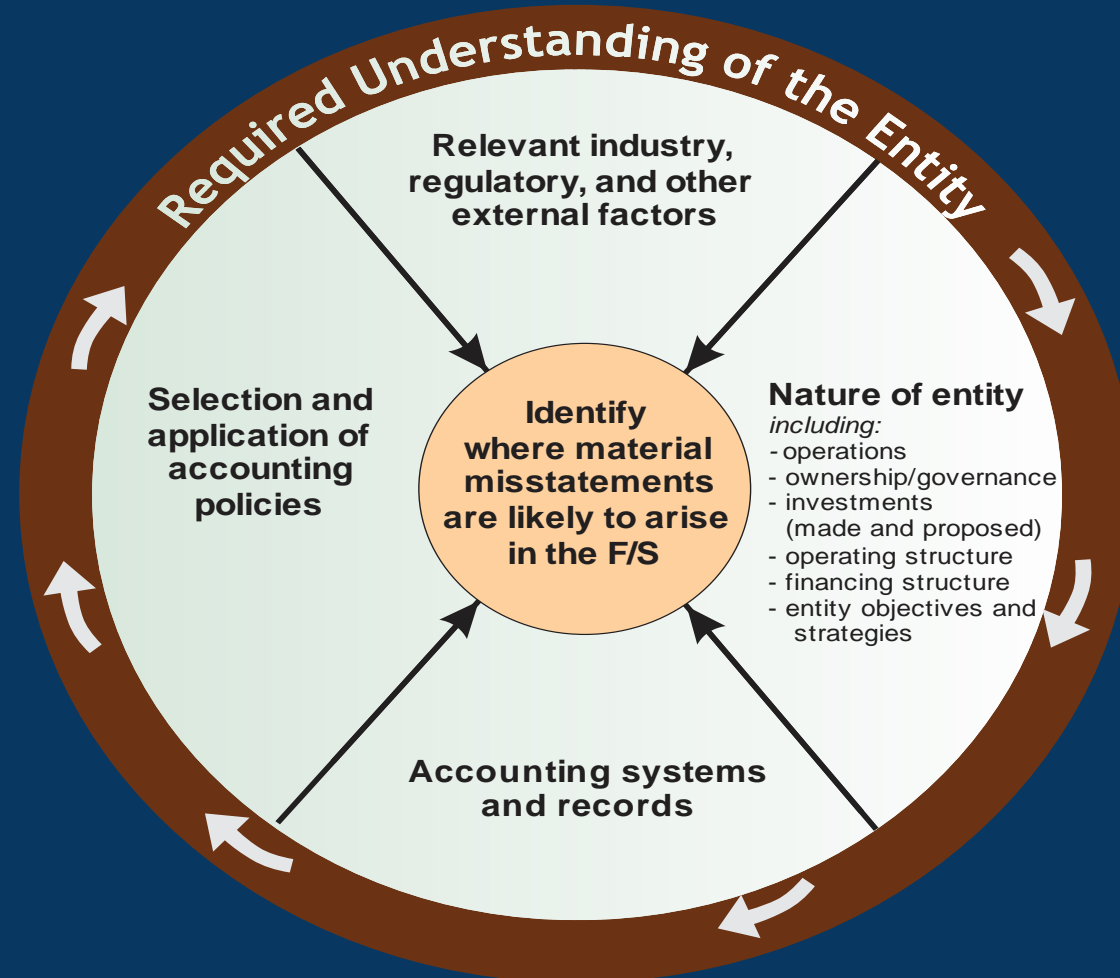
Draw
appropriate
conclusions

The Foundation

UNDERSTANDING OF THE ENTITY

Purpose:

Enable the practitioner to identify where material misstatements are likely to arise.



Design inquiries that also assist in understanding the entity

- Required Areas to Address: [2400.48]
 - Significant accounting estimates
 - Related parties and transactions
 - Significant, unusual, or complex transactions, events, or matters
 - Fraud or illegal acts and noncompliance with laws and regulations
 - Events occurring between the date of the F/S and the date of the practitioner's report that require adjustment/disclosure the in F/S
 - Going-concern uncertainties
 - Material commitments, contractual obligations, or contingencies
 - Material nonmonetary transactions or transactions for no consideration

Design Analytical Procedures

Base analysis on the understanding obtained of the entity.

Process	Use to identify inconsistencies or variances from expected trends , values, or norms in the F/S.
	Use to identify areas where material misstatements are <i>likely to arise</i> in the F/S.
	Use to corroborate other evidence already obtained.
	Use to evaluate inconsistencies identified through other inquiries and procedures.

Design Inquiries

Base inquiries on the understanding obtained of the entity.

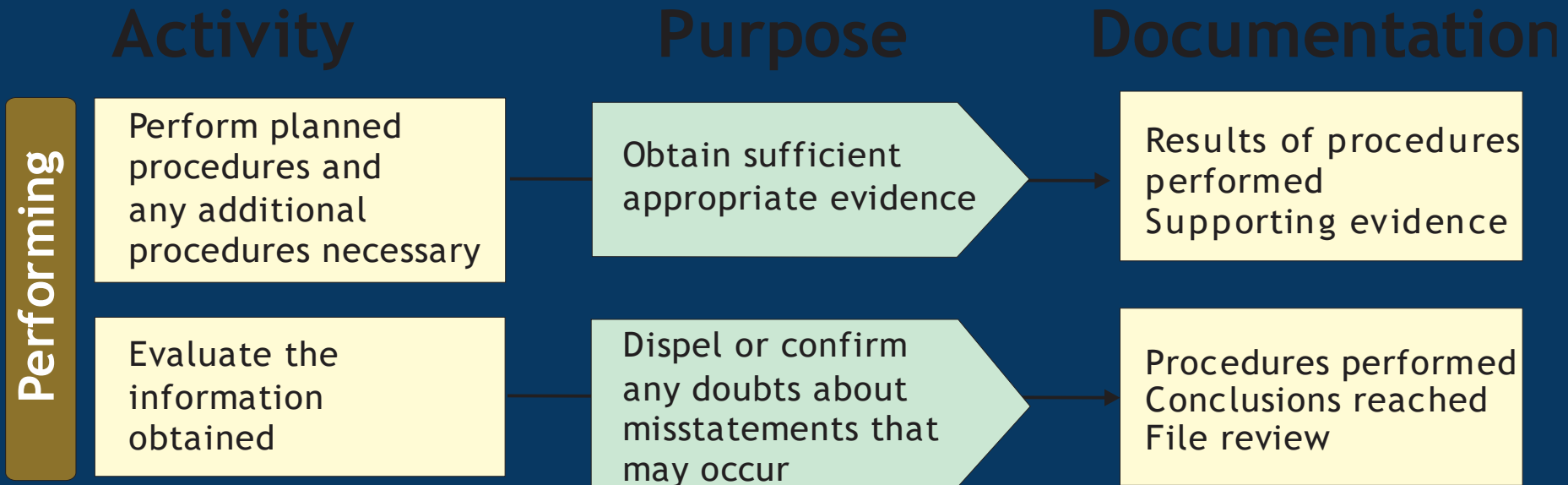
Process

Identify who is the most qualified person in the entity for obtaining the needed information.

Arrange to meet with the person(s) identified to ask the necessary questions.

Evaluate responses provided and be prepared to ask follow-up questions.

Performing



Analytical Procedures, Inquiry, & Work Performed

- The Guide contains some typical analytical procedures for selected account balances (Appendix E).
- Inquiries are required to:
 - Address all F/S items that are material; and
 - Focus on areas where material misstatements are likely to arise, including disclosures.
- The review procedures chosen may not be limited to just inquiry and analysis. They could potentially include:
 - Substantive tests of details
 - External confirmations (banks, lawyers, etc.)
 - Review of documentation supporting e.g. inventory counts, shipping dates of orders around the year end and dates in the accounting records.

Perform the Work

- Perform Planned Procedures

The practitioner is entitled to accept information obtained (often oral) *as long as*:

1. Responses are consistent with the understanding obtained of the entity.
2. Practitioner does not become aware of a matter(s) that causes belief that the F/S may be materially misstated. If a matter(s) is identified, additional procedures will be required.

Becoming Aware of a Matter...

WHEN ADDITIONAL PROCEDURES ARE REQUIRED

IF, in performing the inquiries and analysis, the practitioner **becomes aware ...**

... of a **matter** that would **cause the practitioner to believe** that the F/S **may** be materially misstated ...

... **additional procedures** are required **until such time** that the practitioner can confirm whether the F/S are, indeed, materially misstated or whether they are not.

Need for Additional Procedures

When practitioner **becomes aware** of a matter(s) that causes belief that the F/S may be materially misstated...

...continue performing additional procedures until a conclusion can be made that:

Matter **is NOT** likely to cause material misstatement

Matter **DOES** cause F/S as a whole to be materially misstated

Not possible to form a conclusion
= Scope limitation

Modify the conclusion on F/S

Obtain Written Representations

- During the engagement, management will make a number of **oral representations** in response to the various inquiries and analysis.
- At the end of the engagement, include these oral representations in a written representation letter from management and TCWG.
- The representation letter will:
 - State that management has **fulfilled its responsibilities** described in the agreed terms of engagement.
 - **Confirm** important representations made during the engagement.
 - **Assert** that the information provided was complete.

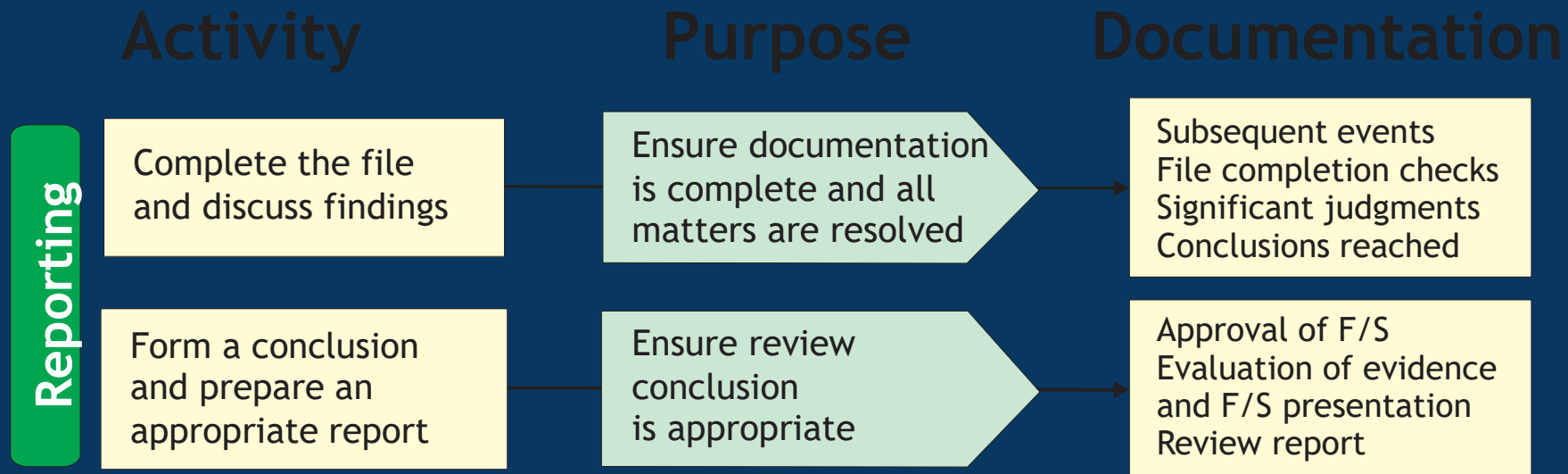
Evaluate the Evidence Obtained

- Has sufficient appropriate evidence been obtained?
- If it is not possible to obtain to form a conclusion, the practitioner is required to discuss with management and TCWG:
 - The nature of, and reasons for, the limitations; &
 - The effects of such limitations on the scope of the review and the conclusion.

Evaluate the Evidence Obtained

- File documentation provides evidence that:
 - The engagement preconditions were met & the engagement was appropriately planned, including the determination of materiality;
 - An understanding of the entity was obtained, including identification of areas where material misstatements were likely to arise;
 - Review procedures were, in fact, performed and the results were obtained (along with supporting evidence reviewed and appropriate conclusions drawn);
 - Significant matters arising and conclusion reached during the engagement have been appropriately addressed. This includes how the significant professional judgments were made in reaching those conclusions; and
 - The limited assurance conclusion on the financial statements as a whole was appropriate based on the evidence obtained.

Reporting



Evaluate Identified Misstatements

- Reporting

Accumulate uncorrected misstatements identified for this period and the previous period

If necessary, **revise** materiality (2400.44)

If not already corrected, **ask** management/TCWG to correct the identified misstatements

Consider

- materiality of amounts
- nature and causes
- management bias, such as in estimates

Evaluate reasons given for not correcting any identified misstatements

Consider any management bias that exists, such as only making selective corrections

Perform additional procedures if you become aware of any matter that causes belief that the F/S may be materially misstated

Evaluate impact on the F/S as a whole

Communicate Engagement Findings

Matters to Discuss with Management and TCWG

Use and application of significant accounting policies.

Reasonableness of management estimates.

Material uncertainties that may cast significant doubt on the entity's ability to continue as a going concern.

Significant difficulties encountered on the engagement.

Any disagreements with management and how they were resolved.

Whether or not identified misstatements were corrected.

The wording of the practitioner's conclusion on the F/S.

Other relevant matters.

Form a Conclusion on the F/S

- Unmodified
 - Based on our review, nothing has come to our attention that causes us to believe ...
- Modified

Nature of Matter	Pervasiveness of Effects on F/S	
	Material but NOT Pervasive	Material AND Pervasive
F/S Materially Misstated	Qualified Conclusion	Adverse Conclusion
Inability to Obtain Necessary Evidence	Qualified Conclusion	Disclaimer of Conclusion

Wording of Modified Reports

- **QUALIFIED**

- **except for** the possible effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention...

- **ADVERSE**

- Based on our review, due to the significance of the matter(s) described in the Basis for Adverse Conclusion paragraph, the financial statements **do not present fairly**, in all material respects (or do not give a true and fair view), ...

- **DISCLAIMER**

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

Emphasis of Matter Paragraph

To draw users' attention to a matter **presented/disclosed in the F/S** that is of such importance that it is fundamental to users' understanding of the F/S.

Typical Uses	Going-concern uncertainties.
	Uncertainty relating to exceptional litigation or regulatory action.
	Subsequent events, such as the sale/acquisition of a business.
	A major catastrophe.
	Other significant uncertainties and inconsistencies.
	Early application (where permitted) of a new accounting standard.

Other Matters Paragraph

Matters relevant to the users' understanding of the practitioner's responsibilities, work performed, and report **that are NOT disclosed in the F/S.**

Typical Uses	Inability of the practitioner to withdraw from the engagement.
	Restrictions on the distribution of the practitioner's report.
	Special purpose information or information presented to a third party.
	Typical wording: "This report is intended to be used solely for [<i>indicate specific use</i>] and is not to be referred to, or distributed to, any person not a member of management of [<i>XYZ Limited</i>] or [<i>name of person to whom the report is addressed</i>]."

Checklists & forms

- Checklists & Forms in the Guide:
 - Client Acceptance/ continuance checklist
 - Sample Engagement letter
 - Checklist for Understanding the Entity
 - Examples of Analytical Procedures
 - Going Concern and conditions
 - Sample file completion checklist
 - Written Representations from Management

Marketing – Uses and benefits

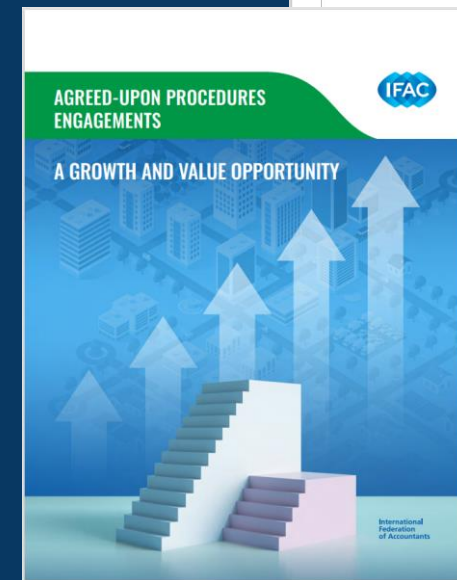
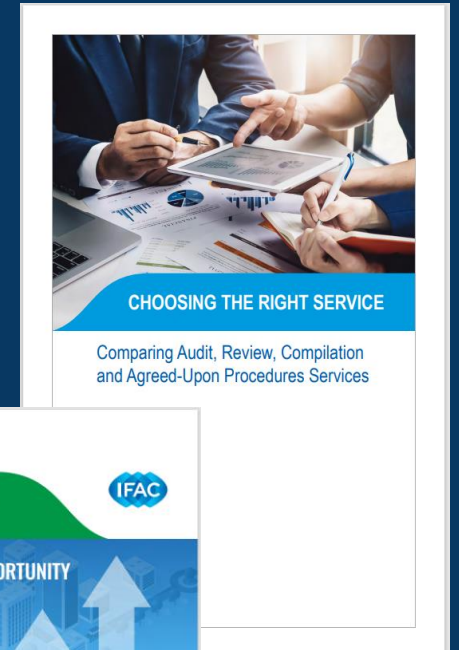
- Uses:
 - Independent credibility to the F/S – attract new investors, obtain finance.
 - Provides accountability & confidence to shareholders, management, partners, government agencies and regulators and other stakeholders.
 - Enables the business to plan for the future – prepares growing business for transition to audit, possible public listing or preparing to sell.
- Benefits:
 - Lower cost for an entity than an audit.
 - Limited assurance obtained on the reliability of the F/S as apposed to no assurance with a compilation.
 - A review engagement may be better suited to the needs of some SMEs and place less strain on clients' time and resources.

Marketing

- Bespoke advice
 - Through obtaining a detailed understanding the business and its environment the practitioner should be able to use industry knowledge gained from other clients to add value to the client and provide bespoke advice.
- Completion of work onsite
 - Undertaking the review engagement onsite will enable the practitioner to effectively communicate with the client, build strong relationships and improve staff efficiency levels.
- Opportunities – additional service
 - Ensure the client is aware of how and when a review engagement can be used and the value of this being undertaken by a qualified, objective and independent practitioner.

IFAC International Standard Resources

- [Choosing the Right Service: Comparing Audit, Review, Compilation, and Agreed-Upon Procedure Services Brochure](#) (to be used by firms – can add contact details)
- [Quality Management Guidance & Resources](#)
- [Guide to Using International Standards on Auditing in the Audits of Small- and Medium-Sized Entities \(Third Edition\)](#) (incl. companion manual and slides)
- [Auditing Accounting Estimates: ISA 540 \(Revised\) Implementation Tool](#)
- [Agreed-Upon Procedures: A Growth and Value Opportunity](#)
- [Guide to Compilation Engagements](#)
- [Tips for Cost-Effective ISA Application](#) article



IFAC General Resources

- Knowledge Gateway: www.ifac.org/Gateway
- Practice Transformation '[Welcome to the Fast Future](#)'
- [Guide to Practice Management for SMPs](#)
- Follow us on [Twitter](#): IFAC_SMP
- Join us on [LinkedIn](#): IFAC SMP Community
- IFAC SMP Advisory Group: www.ifac.org/SMP



Knowledge Gateway

Global Accountancy Knowledge, Resources & Tools

Summary

Thank you
Any questions?

