

## International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

This summary provides an overview of ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*

**Project Objective:**

To enhance the quality and consistency of engagements to review historical financial statements, through revised requirements and guidance addressing the responsibilities, work effort and reporting considerations of practitioners undertaking such engagements.

The project was undertaken in the context of the IAASB's strategic focus to develop standards to address market demand for assurance services other than audits that meet the needs of small- and medium-sized entities (SMEs) and users of their financial information.

**Effective Date**

Reviews of financial statements for periods ending on or after December 31, 2013

**For More Information:**

Visit the IAASB's website for more on the [project's history](#) and a staff-prepared [Basis for Conclusions](#).

## Why might an entity engage a practitioner to perform a review engagement, and why did the IAASB decide to revise its review standard?

A review engagement is an evidence-based engagement in which the practitioner obtains limited assurance to support a conclusion on the financial statements.

When an audit of financial statements is not required, a review engagement may be required by law or regulation or can be voluntarily undertaken.

### Increased demand for services other than audits

Many jurisdictions have introduced exemptions from mandatory audits of financial statements, for example, based on the type of entity, its size, or other public interest considerations. This change in the regulatory environment is a significant driver of demand for services, other than the financial statement audit, that enhance the credibility of SME financial statements on a cost-effective basis.

Rather than audits, some jurisdictions have chosen instead to require the entity's historical financial statements to be reviewed by a practitioner. Other entities not required to have an audit may request a practitioner to perform a review engagement.

### Aims of the revised review standard

ISRE 2400 (Revised) helps practitioners performing review engagements converge on use of a globally accepted benchmark for undertaking such engagements, and promotes better clarity for users about the nature of a review. The revised standard is intended to fill an emerging need in jurisdictions that currently do not have national standards addressing reviews of financial statements.

The IAASB believes that an engagement performed under the revised standard should:

- Enhance users' degree of confidence in the entity's financial statements, by reporting on them in a manner commensurate with the limited assurance obtained by the practitioner.
- Be able to be performed on a cost-effective basis.
- Be clearly distinguishable from an audit of financial statements

## What is the nature of the work performed in a review engagement?

The practitioner performs inquiry and analytical procedures to obtain sufficient appropriate evidence to conclude on the financial statements as a whole.

If sufficient appropriate evidence has not been obtained from inquiry and analytical review, the practitioner performs other procedures judged necessary to be able to form a conclusion.

The practitioner performs additional procedures if the practitioner becomes aware of matters that cause the practitioner to believe the financial statements may be materially misstated.

### Obtaining an understanding of the entity and the environment

As a basis for designing procedures to address areas in the financial statements where material misstatements are likely to arise, the practitioner obtains an understanding of the entity and its environment, and of the applicable financial reporting framework.

This is a continual dynamic process of gathering, updating and analyzing information throughout the engagement, and the practitioner's understanding is updated as changes in conditions and circumstances occur.

### Designing and performing procedures for the review

The practitioner is required to design and perform inquiry and analytical procedures to:

- Address all material items in the financial statements, including disclosures; and
- Focus on addressing areas in the financial statements where material misstatements are likely to arise.

The ISRE also specifies certain matters the practitioner is required to cover through inquiries, and identifies specific circumstances the practitioner is required to address, namely:

- Related parties,
- Fraud and non-compliance with laws and regulations, and
- The entity's ability to continue as a going concern.

### Additional procedures

If, during the engagement, the practitioner becomes aware of matters that cause the practitioner to believe the financial statements may be materially misstated, the practitioner is required to design and perform procedures sufficient to address those matters; either by concluding that they are not likely to cause the financial statements as a whole to be materially misstated, or by determining that they do cause the financial statements to be materially misstated.

## How does ISRE 2400 (Revised) address engagement quality?

Compliance with relevant ethical requirements, engagement-level quality control procedures, and a focus on competence and capabilities, including competence in assurance skills and techniques, are among key matters highlighted in ISRE 2400 (Revised).

### Engagement quality control

Among other important provisions:

- The ISRE establishes safeguards that review engagements are not undertaken when they are not appropriate in the circumstances.
- The ISRE requires the engagement partner to take responsibility for the overall quality of the review engagement, including:
  - Direction, supervision, planning and performance of the review in compliance with professional standards and applicable legal and regulatory requirements; and
  - Performance of the engagement in accordance with the firm's quality control policies, including taking responsibility for appropriate engagement documentation being maintained.

### Professional skepticism and professional judgment

The practitioner's professional skepticism and ability to exercise sound professional judgment are important influences on engagement quality. The practitioner is required to plan and perform the review with professional skepticism, recognizing that circumstances may exist that cause the financial statements to be materially misstated.

Professional judgment is essential to the performance of high-quality reviews, most particularly regarding decisions about the procedures performed and the sufficiency and appropriateness of the evidence obtained, and to form the practitioner's conclusion.

## What is reported in a review engagement?

The practitioner's report under ISRE 2400 (Revised) includes a description of the nature of a review engagement as context for the readers of the report to be able to understand the conclusion.

The ISRE includes requirements and guidance directing the practitioner to the type of conclusion that should be issued depending on the circumstances, for example when sufficient appropriate evidence has not been obtained or when there is a limitation on the scope of the review.

### Description of the review engagement in the practitioner's report

The practitioner's report contains, among other things:

- A description of the practitioner's responsibility under the ISRE; and
- A description of a review of financial statements, including the following statements:
  - A review engagement under the ISRE is a limited assurance engagement;
  - The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained; and
  - The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (ISAs), and, accordingly, the practitioner does not express an audit opinion on the financial statements.

### Form of the practitioner's conclusion

The practitioner expresses a conclusion that is based on the evidence obtained during the review engagement.

An unmodified conclusion is expressed when the practitioner has obtained limited assurance to be able to conclude that nothing has come to the practitioner's attention that causes the practitioner to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework.