

Basis for Conclusions
Prepared by the Staff of the IAASB
September 2012

International Standard on Review Engagements

**ISRE 2400 (Revised),
Engagements to Review
Historical Financial
Statements**

IAASB

International Auditing
and Assurance
Standards Board

This document was prepared by the Staff of the International Auditing and Assurance Standards Board (IAASB).

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance.

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The structures and processes that support the operations of the IAASB are facilitated by the International Federation of Accountants (IFAC).

Copyright © September 2012 by the International Federation of Accountants (IFAC). For copyright, trademark, and permissions information, please see [page 17](#).

BASIS FOR CONCLUSIONS:

ISRE 2400 (REVISED), ENGAGEMENTS TO REVIEW HISTORICAL FINANCIAL STATEMENTS

This Basis for Conclusions has been prepared by staff of the International Auditing and Assurance Standards Board (IAASB). It relates to, but does not form part of, International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*, which was approved by the IAASB in June 2012 with the affirmative votes of 17 out of 18 IAASB members and one abstention.¹

Background

1. In March 2009, the IAASB commenced revision of the extant ISRE 2400² as part of the IAASB's strategic focus to explore standards for a range of services that are capable of meeting the unique needs of small- and medium-sized entities (SMEs) and the users of their financial information. Underpinning this strategic focus is the development in recent years of growing demand for assurance services, other than the financial statement audit, that help enhance the credibility of the financial statements of SMEs. This demand is particularly apparent in jurisdictions where recent changes to law or regulation have resulted in a significant proportion of SMEs no longer being required to have their financial statements subject to audit.
2. In undertaking the revision of ISRE 2400, the IAASB acknowledged the importance of making clear the distinguishing features of a review engagement. The IAASB also acknowledged the importance of helping jurisdictions around the world to converge on use of a globally accepted benchmark for review engagements, and to promote better clarity for users about the nature of a review.
3. In January 2011, the IAASB exposed proposed ISRE 2400 (Revised) (ED-2400). The comment period closed on May 20, 2011, with fifty comment letters³ submitted by respondents, including private and public sector regulator or oversight authorities, national standard setters, IFAC member bodies and other professional bodies, firms and individuals. This Basis for Conclusions explains the more significant issues raised by respondents to ED-2400, and how the IAASB has addressed them.
4. The IAASB has also discussed this project with the IAASB Consultative Advisory Group on six occasions, including: at the project commencement stage; prior to the issue of ED-2400; and prior to the finalization of the standard.

¹ For a summary of the rationale given by the IAASB member who abstained, see the minutes of the June 11–15, 2012 IAASB meeting at www.ifac.org/sites/default/files/meetings/files/20120917-IAASB-Edinburgh-June2012_Minutes-Approved.pdf under the heading "Minutes."

² ISRE 2400, *Engagements to Review Financial Statements*

³ Forty-nine response letters were received by on or around the due date for responses to ED-2400 (including one received in both the original Canadian-French version and a translated English version). A further response letter submitted after the due date was included in the total received responses considered by the project Task Force.

Concept of a Limited Assurance Engagement

5. Paragraph 5 of ED-2400 explained that the review of historical financial statements is a limited assurance engagement, as described in the *International Framework for Assurance Engagements* (the Assurance Framework). Except for this reference, the IAASB did not include the term “limited assurance” or propose a definition within ED-2400. This was in recognition that the term itself has a broad conceptual meaning, and that the focus of the practitioner’s effort should be to form a conclusion based on the evaluation of whether sufficient appropriate evidence has been obtained. The position also reflected the view that the proposed objectives and requirements stated in ED-2400 sufficiently establish the parameters for the level of assurance that the practitioner needs to obtain in a review engagement.
6. Consistent with the Assurance Framework, ED-2400 also characterized the review of historical financial statements as an evidence-based assurance engagement. Accordingly, the proposed objectives and requirements in ED-2400 made reference to the need for the practitioner to evaluate the sufficiency and appropriateness of the evidence obtained to support the practitioner’s expression of a conclusion on the financial statements.
7. The majority of respondents to ED-2400 expressed the view that limited assurance is an important term of reference for the practitioner when performing a review engagement. Respondents also believed that, notwithstanding the difficulty in creating a precise definition of the term, due to its importance as a distinguishing factor of a review engagement it should be included in key elements of the ISRE.
8. Many respondents questioned whether references to “sufficient appropriate evidence” in the ED-2400 would be properly understood and interpreted by practitioners in the context of a limited assurance engagement. It was suggested that the term is strongly associated with audit engagements. Therefore, its use in the ISRE could potentially lead to misunderstanding regarding the extent and nature of work needed for a review, and cause confusion as to the distinction between an audit and a review.
9. A few respondents were of the view that the review engagement is a procedures-based engagement where the practitioner’s conclusion is based on evaluation of results obtained from the specified procedures to be performed. In contrast, several others believed it is important to convey the evidence-based nature of the review as an assurance engagement through the use of the term “sufficient appropriate evidence” in the ISRE. These respondents suggested that an explanation in the ISRE of how this term is intended to be applied in the context of a review engagement would be helpful, both to promote understanding of its relevance in a review and to mitigate any risk of confusion with an audit.

IAASB Decisions

10. The IAASB agreed with respondents’ views that further explicit reference to “limited assurance” in ISRE 2400 (Revised) would help to explain the nature of a review engagement. The Board noted that respondents believed the term provides important context for the requirements of the ISRE, and also promotes consistency with the IAASB’s other standards for limited assurance engagements, which expressly use the term limited assurance for appropriate context.

11. Accordingly, in finalizing ISRE 2400 (Revised), the IAASB agreed to incorporate the term “limited assurance”:
 - In the description of a review engagement in the introductory section of the ISRE, to provide overall context. (See paragraphs 5–8 of ISRE 2400 (Revised).)
 - In the statement of the practitioner’s objectives to be achieved under the ISRE, to link the objectives to the conceptual description of the engagement. (See paragraph 14 of ISRE 2400 (Revised).)
 - As a term defined for the ISRE, aligned with the concept of limited assurance as described in the Assurance Framework, to enhance the clarity and understandability of the standard for practitioners. (See paragraphs 17(f) and A13 of ISRE 2400 (Revised).)
 - In the reporting requirements of the ISRE, to link the requirements for the expression of the practitioner’s conclusion to the stated objectives. (See paragraph 73 of ISRE 2400 (Revised).)
 - In the description of a review engagement that is required to be contained in the practitioner’s report, to provide appropriate context for users through the report. (See paragraph 86(g) and Appendix 2 (Illustrative Reports) of ISRE 2400 (Revised).)
12. In regard to use of “sufficient appropriate evidence” in the ISRE, the IAASB reaffirmed its view that the evidential basis for a review must be sufficient and appropriate for the practitioner to conclude and report on the financial statements in the form required by the standard, and that it is important to recognize this essential element of a review as an assurance engagement. The IAASB was concerned that the review engagement might be viewed and performed as a “procedures-based” engagement unless it is clearly conveyed in the ISRE that a review is an evidence-based assurance engagement.
13. Accordingly, the IAASB retained reference to the term “sufficient appropriate evidence” throughout ISRE 2400 (Revised), specifically in the following places:
 - The description of the review engagement in the introductory section. (See paragraph 7 of ISRE 2400 (Revised).)
 - Explanatory material for the definition of “limited assurance.” (See paragraphs 17(f) and A13 of ISRE 2400 (Revised).)
 - The requirements addressing designing and performing procedures, and evaluating evidence obtained. (See paragraphs 47 and A79, and A98; and paragraphs 66–67 and A103–A104, respectively, of ISRE 2400 (Revised).)
 - Reporting requirements when a scope limitation exists. (See paragraph 84 of ISRE 2400 (Revised).)
14. In the requirements for designing and performing procedures, the draft revised ISRE 2400 expressly stated that the practitioner is required to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements. Nevertheless, the IAASB recognized the difficulty arising in the possible perception, through the reference to sufficient appropriate evidence, that there is a target level of assurance to be attained when performing a review. In this regard, the IAASB introduced new and amended application material to explain how the phrase “sufficient appropriate evidence” is intended to be applied in the context of a review engagement.

15. This application material explains the practitioner's approach to designing and performing procedures, and evaluating the evidence obtained, in the context of obtaining sufficient appropriate evidence to support the conclusion on the financial statements as a whole. The application material highlights the following matters as guidance for practitioners:
- That evidence is cumulative in nature and is primarily obtained from the procedures performed during the course of the review. (See paragraph A13 of ISRE 2400 (Revised).)
 - That professional judgment is essential to the proper conduct of a review engagement. In particular (see paragraphs A21 and A79–A82 of ISRE 2400 (Revised)):
 - Regarding decisions about materiality, and the nature, timing and extent of procedures used to meet the requirements of the ISRE, and to gather evidence; and
 - When evaluating whether the evidence obtained from the procedures performed reduces the engagement risk to a level that is acceptable in the engagement circumstances.
 - That the circumstances of review engagements vary widely and, notwithstanding that the requirements of the ISRE are designed to enable the practitioner to achieve the objectives specified in the ISRE, the practitioner may consider it efficient or effective to design and perform other procedures to obtain limited assurance. If the practitioner deems it necessary to perform other procedures, the practitioner's objective nonetheless remains that of obtaining limited assurance in relation to the financial statements as a whole. (See paragraphs A79–A82 of ISRE 2400 (Revised).)

Performing a Review Engagement

16. ED-2400 set out proposed requirements for the practitioner to perform procedures to obtain sufficient appropriate evidence in a review, and described those procedures as being primarily inquiry and analytical procedures. If the results obtained from the inquiry and analytical procedures performed did not adequately address areas in the financial statements where material misstatements are likely to arise, ED-2400 required the practitioner to determine whether it was necessary to perform additional procedures in order to be able to form a conclusion on the financial statements.
17. Further, ED-2400 acknowledged the conditional circumstance of additional procedures being required if the practitioner becomes aware of a matter that causes the practitioner to believe the financial statements may be materially misstated. In that situation, the practitioner would be required to design and perform additional procedures considered necessary in the circumstances, to either conclude that the matter is not likely to cause the financial statements as a whole to be materially misstated, or to determine that the matter causes the financial statements as a whole to be materially misstated.
18. Respondents expressed divergent views on these proposed requirements concerning the nature and extent of the procedures required for a review. The majority of respondents who commented on this issue agreed that there may be a need to perform procedures other than inquiry and analytical procedures in certain circumstances in order to be able to obtain sufficient appropriate evidence to form a conclusion. Several respondents pointed out that this approach corresponds with the way reviews are performed in practice – and viewed the nature and extent of additional procedures as

an area where practitioners apply professional judgment in deciding what procedures to perform, and the extent of those procedures.

19. However, some respondents disagreed that the review engagement should extend to performing procedures other than inquiry and analytical procedures, and several respondents considered that doing so would blur the distinction between an audit and a review.
20. Many respondents also felt that the requirements in ED-2400 that addressed the performance of a review and the process to obtain sufficient appropriate evidence, including performing additional procedures, needed to be clearer. Some expressed concern that, if the requirements were too general, practitioners may inadvertently extend their work to a level beyond that needed to form a conclusion based on obtaining limited assurance, thereby undermining the relative cost-effectiveness of a review engagement and blurring the distinction between an audit and a review.
21. A few respondents also noted that the phrase “additional procedures” was used with reference to two different circumstances in a review engagement where procedures beyond inquiry and analytical procedures could be required, and that this would likely cause confusion for practitioners since they are distinctly different situations. Several respondents suggested that the requirements and related application material needed to be clearer to promote a better understanding of the different circumstances when the need for additional procedures could arise, and should also include appropriate examples for illustration.

IAASB Decisions

22. Recognizing the evidence-based nature of the review engagement as a limited assurance engagement, the IAASB believed ISRE 2400 (Revised) should acknowledge the consideration and role of professional judgment in the decision to use procedures in addition to inquiry and analytical review, where the practitioner considers that performing such procedures is necessary.
23. In considering respondents’ comments, the IAASB agreed that the requirements should convey the importance of the interaction of the practitioner’s knowledge of the entity, its environment, the applicable financial reporting framework and the practitioner’s professional judgment, in designing and performing procedures that focus on areas in the financial statements where material misstatements are likely to arise. The requirements should also comprise a robust approach to designing and performing procedures, including where there is need for evidence beyond that obtained (or obtainable) from inquiry and analytical procedures.
24. Accordingly, the IAASB retained the requirements for the practitioner to:
 - Design and perform inquiry and analytical procedures to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole. (See paragraph 47 of ISRE 2400 (Revised).)
 - Evaluate whether sufficient appropriate evidence has been obtained from the procedures performed and, if not, perform other procedures judged by the practitioner to be necessary in the circumstances to be able to form a conclusion on the financial statements. (See paragraph 66 of ISRE 2400 (Revised).)

25. However, to further enhance the clarity and intent of these requirements, the IAASB added application material in the ISRE, as follows:
- To explain that, following the iterative nature of a review engagement, the practitioner's evaluation of results obtained from procedures performed serves also to update the practitioner's understanding throughout the engagement, and accordingly also the practitioner's judgment about the evidence that is needed to obtain limited assurance. (See paragraph A77 of ISRE 2400 (Revised).)
 - To explain that the practitioner may, in certain circumstances, consider it effective and efficient to design and perform procedures other than inquiry and analytical procedures to obtain sufficient appropriate evidence. For illustration, the ISRE provides an example of a situation where the practitioner chooses to do so. (See paragraphs A79 and A81 of ISRE 2400 (Revised).)
- The ISRE also clarifies that the practitioner's decision to perform other procedures does not alter the practitioner's objective of obtaining limited assurance in relation to the financial statements as a whole. (See paragraph A82 of ISRE 2400 (Revised).)
- To explain that, in evaluating evidence obtained from procedures performed, if the practitioner considers that the evidence is not sufficient and appropriate to be able to form a conclusion on the financial statements, the practitioner may extend the work performed, or perform other procedures judged by the practitioner to be necessary in the circumstances.
- Where that is not practicable in the circumstances, and that means the practitioner is not able to obtain sufficient appropriate evidence to be able to form a conclusion, the practitioner is required to determine the effect on the practitioner's report, or on the practitioner's ability to complete the engagement. (See paragraph A103 of ISRE 2400 (Revised).)
26. The IAASB also recognized that further specificity in relation to the required understanding of the entity and its environment would promote the consistency of understanding of the appropriate work effort in a review engagement. Accordingly, the IAASB:
- Clarified that the practitioner's required understanding of the entity and its environment, and the applicable financial reporting framework, is for the purpose of identifying areas in the financial statements where material misstatements are likely to arise, thereby providing a basis for designing procedures to address those areas. (See paragraph 45 of ISRE 2400 (Revised).)
 - Specified a number of areas, relating to the entity and its environment and the applicable financial reporting framework, for which the practitioner is required to obtain an understanding. (See paragraph 46 of ISRE 2400 (Revised).)
27. To enhance the clarity of the ISRE, the IAASB continued to use the phrase "additional procedures" in relation to circumstances that cause the practitioner to believe the financial statements may be materially misstated (see paragraph 57 of ISRE 2400 (Revised)). However, ISRE 2400 (Revised) now uses the term "other procedures" for circumstances where the practitioner judges it appropriate to design and perform procedures other than inquiry and analytical procedures to be able to form a conclusion on the financial statements. (See paragraph 66 of ISRE 2400 (Revised).)

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

28. ED-2400 contained the following proposed requirement to address the following situation:

If the practitioner becomes aware of a matter(s) that causes the practitioner to believe the financial statements may be materially misstated, the practitioner shall design and perform additional procedures sufficient to enable the practitioner to:

- (a) Conclude that the matter(s) is not likely to cause the financial statements as a whole to be materially misstated; or
- (b) Determine that the matter(s) causes the financial statements as a whole to be materially misstated.⁴

The proposed requirement is a conditional requirement, effective only when the threshold condition arises where the practitioner is aware of a matter that causes the practitioner to believe the financial statements *may be materially misstated*.

29. This proposed requirement in ED-2400 was presented consistently with similar requirements proposed in the IAASB's exposure drafts of proposed ISAE 3410⁵ and proposed ISAE 3000 (Revised).⁶
30. The majority of respondents to ED-2400 who commented on this matter agreed that the word "may" is the appropriate threshold to describe the condition where performance of additional requirements would be required under the ISRE. However, a few respondents did not agree, and expressed concerns that the meaning of "may" is unclear in this context and can be interpreted very broadly. Several respondents were concerned that this threshold is too low and would lead to additional procedures almost always being performed in a review. It was thought that this would negatively affect the relative cost-benefit advantage of reviews vs. audits for entities considering having a review instead of an audit.

IAASB Decisions

31. The IAASB re-affirmed its view that the proposed threshold for additional procedures, as set out in ED-2400, is appropriate, including the use of the wording "may be materially misstated". (See paragraph 57 of ISRE 2400 (Revised).)
32. The IAASB also noted that the requirement is a conditional one, applying only if the practitioner "becomes aware of a matter(s) that causes the practitioner to believe..." Accordingly, it is intended that the requirement would become effective only when something is identified or has occurred in the course of the review engagement and not by the mere possibility that risk of material misstatement in the financial statements may exist.
33. The IAASB introduced new application material to illustrate the practitioner's decisions, and the work flow and possible outcomes in such circumstances. The example serves to illustrate both the nature of a situation that would trigger the relevant requirements, and also the type of response by

⁴ ED-2400, paragraph 57

⁵ Proposed International Standard on Assurance Engagements (ISAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*

⁶ Proposed ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

the practitioner that would meet the requirements of the ISRE. (See paragraph A99 of ISRE 2400 (Revised).)

The Practitioner's Report

34. ED-2400 included the proposal for the practitioner's report to include the following elements (among others):
- A description of the nature of a review of financial statements (and its limitations); and
 - The practitioner's conclusion on the financial statements as a whole, when the practitioner concludes, based on the evidence obtained, that [in the case of an unmodified conclusion] 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 [for financial statements prepared using a fair presentation framework].
35. The practitioner's conclusion expressed in the form required by the proposed ISRE is an important element of the practitioner's communication with users. It signals the limited assurance basis of the conclusion expressed in the practitioner's report.
36. The majority of respondents who commented on this matter agreed that the practitioner's report using the limited assurance form of conclusion adequately communicates to users the work undertaken by the practitioner for the review. Many of those respondents also agreed on the importance of using the prescribed form of conclusion as a way to differentiate the review from an audit, and to minimize the risk that users may not otherwise appreciate the limited assurance associated with a review conclusion.
37. However, a few respondents believed that the form of conclusion required in ED-2400 would only be meaningful to users if accompanied by a detailed description of the procedures performed for the review. It was argued that not only would this approach help users better understand the basis upon which the practitioner's conclusion is formed, but it would also promote a level of consistency between the content of reports provided for different limited assurance engagements. These respondents believed this approach would, for example, be consistent with the limited assurance form of reporting under ISAE 3410, which encourages inclusion in the practitioner's report of a summary description of the procedures performed by the practitioner in the engagement.

IAASB Decisions

38. The IAASB reaffirmed its view that the review report should include a standard description of the review engagement as a limited assurance engagement comprising primarily inquiry and analytical procedures, and evaluating the evidence obtained. The IAASB concluded that, in a review where specific types of procedures are required (that is, primarily inquiry and analytical procedures), there is no need to provide a further level of detail. The IAASB believes that the potential benefits of a fuller description of the procedures performed, including in the circumstance where the practitioner considers it necessary to undertake procedures additional to the specific types of procedures required under the ISRE, are outweighed by a perceived significant risk that the additional information could be misconstrued by users as conveying a higher level of assurance than is intended.

39. The IAASB explored whether the approach taken in ISAE 3410 for describing a limited assurance greenhouse gas (GHG) assurance engagement could be used for the ISRE 2400 review report, and the implications of doing so. It noted that advantages may include:
- If detailed information is provided about the procedures performed in a review of financial statements, readers of the practitioner's report will be able to better appreciate the conclusion expressed by the practitioner (i.e., based on the procedures performed and the evidence obtained, nothing has come to my attention that causes me to believe that ...).
 - There may be benefit in reports for different types of limited assurance engagements using a consistent format, to enhance readers' familiarity, acceptance and general understanding of limited assurance reports.
40. However, the IAASB noted that modeling the ISRE 2400 review report on an ISAE 3410 limited assurance report would likely not yield meaningful benefit or useful results for report readers. Rather, doing so would likely:
- Confuse report readers, especially as to the distinction between an audit engagement and a review engagement; and
 - Diminish, rather than enhance, the value of the review report for users of unaudited financial information.
41. The IAASB also noted several further disadvantages. Firstly, there are already expectations gaps identified with respect to assurance reporting on financial statements, and the risk of misunderstanding is thought to be relatively higher for reviews as users may fail to understand the limited assurance basis of the review report. If the ISRE 2400 review report were to provide expanded descriptions of procedures performed, readers of the report may give undue weight to the information about procedures performed in their reading and understanding of the practitioner's conclusion on the financial statements (for example, the more detailed review report could be perceived as being associated with a level of assurance equivalent to or greater than the reasonable assurance associated with an audit).
42. The risk that readers may misinterpret the level of assurance obtained by the practitioner in performing the review is heightened in view of the fact that, in today's auditor's report, the auditor does not detail the procedures performed for an audit of financial statements. To effectively counter this, the review report would have to list the procedures required in an audit that are not performed in a review. This amount of detail in the review report would likely be counterproductive, and may potentially confuse the readers.
43. Secondly, readers could interpret the practitioner's conclusion provided pursuant to the review as a type of piecemeal conclusion, rather than as a conclusion on the financial statements as a whole. That is, the description of procedures performed may lead users to believe the practitioner has obtained more assurance for financial statement items to which the procedures described relate, than for the other areas of the financial statements.
44. Finally, the approach of customized reporting of the procedures performed in a review engagement could also have the adverse outcome of "requirement creep." The practice of disclosing the procedures performed has the potential to influence performance of reviews if certain procedures become de facto standard procedures for reviews merely by the fact of being commonly reported

by practitioners in the review report (i.e., in a type of ratchet effect, where the expectation develops that certain types of procedures are performed on all reviews).

45. The IAASB also noted some key areas of inherent difference between ISRE 2400 and ISAE 3410 engagements. For example, these different types of assurance engagements involve significantly different types of underlying subject matter information. It was also noted that the work effort applied and the acceptable level of risk may be different across GHG reporting settings, reflecting consideration of the engagement circumstances and intended users, whereas the range of limited assurance engagements for historical financial statements is much narrower, with generally less variation in the work effort applied to reduce engagement risk to an acceptable level. These differences support the need for different approaches to reporting used in each.
46. For reporting requirements and illustrative reports in ISRE 2400 (Revised), see paragraphs 73–74, 78–79, 83 and 86(g)–(i), and Appendix 2.

Engagement Acceptance and Continuance

47. ED-2400 set out proposed requirements for engagement acceptance and continuance by practitioners, and prohibited acceptance of a review engagement if certain factors are not present or pre-conditions are not met. The proposed requirements aimed to ensure that review engagements would only be undertaken in appropriate circumstances.
48. Respondents largely agreed that the proposed requirements in ED-2400 were appropriate. However, several respondents requested clearer guidance to help practitioners address the situation where the conditions surrounding a prospective review engagement lead the practitioner to believe that recommending another type of engagement is the appropriate course of action. For example, the practitioner may consider that, given the conditions, an audit is warranted rather than a review.

IAASB Decisions

49. The IAASB agreed that the requirements and guidance in ED-2400 could be clearer in this area. Accordingly, it amended the requirements to expressly state that a review engagement must not be accepted if the practitioner is not satisfied that a review would be appropriate in the circumstances. (See paragraph 29(a)(ii) of ISRE 2400 (Revised).)
50. Taken together with the requirement that the practitioner must not accept a review engagement if the practitioner is not satisfied that there is a rational purpose for the engagement (a principle derived from the Assurance Framework), the IAASB believes that ISRE 2400 (Revised) has sufficiently clear requirements and guidance to ensure that practitioners will only accept review engagements when, viewed from the practitioner’s perspective, doing so is appropriate in the circumstances and there is a rational purpose for the review engagement.
51. The IAASB did not believe it appropriate to attempt to establish “bright line” requirements using arbitrary criteria such as entity size or industry, especially given that there are marked differences in the environment in which reviews are undertaken among different jurisdictions. For example, in some jurisdictions there is an established practice, and market acceptance, of reviews being undertaken for entities of a size or nature that, in other jurisdictions, would be required to have their financial statements audited.

Competence in Assurance Skills and Techniques

52. ED-2400 included the proposed requirement for the engagement partner, who is responsible for the overall quality of a review engagement, to be satisfied that the engagement team collectively has the appropriate competence and capabilities to perform the review engagement.
53. Some respondents expressed the concern that the ISRE should contain an explicit requirement for practitioners performing reviews to be competent in the use of assurance skills and techniques. This, they believed, is critical given that the review is an assurance engagement that requires application of significant professional judgment and technical expertise. This is not only for the selection of the nature, timing and extent of evidence gathering procedures and proper execution of those procedures and for evaluation of the evidence obtained, but also most pertinently for forming a judgment about whether limited assurance has been obtained.
54. A caution was expressed by some respondents that, if the goal of promoting consistency in the approach to engagement acceptance and performance is important for those undertaking review engagements, and if overall quality in review engagements is important for maintaining confidence in review engagements as a useful form of assurance engagement, it is in the public interest that the proposed ISRE contain requirements designed to promote those outcomes.

IAASB Decision

55. The IAASB supported the view that emphasis should be placed on the importance of the practitioner possessing competencies appropriate to the engagement circumstances, in the context of both having responsibility for engagement-level quality and performing the engagement.
56. The IAASB agreed to include a new requirement in ISRE 2400 (Revised) directed at ensuring the appropriate competencies of both the engagement partner responsible for the quality of the review engagement, and the engagement team performing the review. ISRE 2400 (Revised) requires that the engagement partner:
 - Possess competence in assurance skills and techniques, and competence in financial reporting, appropriate to the engagement circumstances; and
 - Take responsibility for the engagement team collectively having the appropriate competence and capabilities, including assurance skills and techniques and expertise in financial reporting.

The ISRE also contains explanatory guidance about the broad assurance skills and techniques relevant for the performance of review engagements.

(See paragraphs 24, 25(d)(ii) and A26 of ISRE 2400 (Revised).)

Scope of Application of ISRE 2400 (Revised) and of ISRE 2410⁷

57. Extant ISRE 2400 states that the ISRE applies when *a practitioner, who is not the auditor of an entity, undertakes an engagement to review financial statements*, and that a practitioner, who is the auditor of the entity, engaged to perform a review of interim financial information performs such a review in accordance with ISRE 2410. In each of the extant ISREs, the application of the ISRE is expressed in terms of whether the practitioner undertaking the review is or is not the auditor of the entity.

⁷ ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

58. ED-2400 stated that *a practitioner engaged to perform a review of an entity's financial statements or interim financial information, who is the auditor of the entity's financial statements, performs such a review in accordance with ISRE 2410.*
59. A few respondents emphasized the importance of the application scope of each ISRE being as clear as possible to avoid situations where practitioners make incorrect decisions, for example, undertaking a review under ISRE 2410 when it should rather have been performed under ISRE 2400 (or vice versa).
60. A few other respondents pointed out some areas of practical difficulty in this area. These respondents noted that the scope of each ISRE can be further fine-tuned to provide better direction to practitioners when faced with some of the situations that occur in practice and encouraged the IAASB to address this in proposed ISRE 2400 (Revised).
61. An example provided is where a practitioner who has been an entity's appointed auditor (e.g., under an annual appointment) is requested to perform a review of the entity's financial statements for the current financial period. However, if the practitioner does not expect to be re-appointed as the entity's auditor, or if the re-appointment is for some reason in question (e.g., in the situation where under new thresholds for mandatory audit requirements an entity is no longer required by law to appoint an auditor), it is not clear which of the ISREs should be followed. If the practitioner does not expect to continue as the auditor because going forward the entity will no longer have its financial statements audited, then, in the absence of clear guidance, the practical uncertainties that arise for practitioners in deciding which ISRE should be applied, due to the wording contained in the extant ISREs, could cause difficulties for practitioners.
62. Several respondents commented on the need to ensure a proper alignment between the proposed performance of ISRE 2400 (Revised) and ISRE 2410 engagements. A few respondents commented on the need to understand how the standards relate to one another as limited assurance engagements on the same or similar type of subject matter, where the practitioner expresses the conclusion in the same form. The question was raised whether it is intended that the level of limited assurance obtained by the practitioner for review engagements performed under each of the ISREs is intended to be the same, similar or different, and why – particularly as there are differences in the work effort required under extant ISRE 2410 and the proposed ISRE 2400 (Revised).

IAASB Decision

63. The IAASB considered the delineation between extant ISRE 2400 and extant ISRE 2410, in the context of when it is appropriate to apply the proposed ISRE 2400(Revised). It agreed to include a clear scoping statement in the introductory section of ISRE 2400 (Revised) stating that the ISRE does not address a review of an entity's financial statements or interim financial information performed by a practitioner who is the independent auditor of the entity's financial statements.
64. The IAASB considers that this approach achieves better clarity in the statement of the scope of ISRE 2400 (Revised). Accordingly, a practitioner who is for the time being the auditor of an entity's financial statements and who is requested to undertake a review of those financial statements or of the entity's interim financial information, will be outside the scope of ISRE 2400 and would need to perform those engagements in accordance with ISRE 2410. (See paragraph 2 of ISRE 2400 (Revised).)

65. The IAASB acknowledged that there may be some practical situations which result in questions relating to the scope of ISRE 2410. The IAASB noted that resolution of such questions would be better addressed in the context of any future project to clarify or revise ISRE 2410.

International Standards on Auditing, International Standards on Assurance Engagements, International Standards on Review Engagements, International Standards on Related Services, International Standards on Quality Control, International Auditing Practice Notes, Exposure Drafts, Consultation Papers, and other IAASB publications are published by, and copyright of, IFAC.

The IAASB and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The IAASB logo, 'International Auditing and Assurance Standards Board', 'IAASB', 'International Standard on Auditing', 'ISA', 'International Standard on Assurance Engagements', 'ISAE', 'International Standards on Review Engagements', 'ISRE', 'International Standards on Related Services', 'ISRS', 'International Standards on Quality Control', 'ISQC', 'International Auditing Practice Note', 'IAPN', the IFAC logo, 'International Federation of Accountants', and 'IFAC' are trademarks and service marks of IFAC.

Copyright © September 2012 by the International Federation of Accountants (IFAC). All rights reserved. Permission is granted to make copies of this work provided that such copies are for use in academic classrooms or for personal use and are not sold or disseminated and provided that each copy bears the following credit line: *"Copyright © September 2012 by the International Federation of Accountants (IFAC). All rights reserved. Used with permission of IFAC. Contact permissions@ifac.org for permission to reproduce, store or transmit this document."* Otherwise, written permission from IFAC is required to reproduce, store, transmit, or make other similar uses of this document, except as permitted by law. Contact permissions@ifac.org.

Published by:





International Auditing
and Assurance
Standards Board

529 Fifth Avenue, 6th Floor, New York, NY 10017
T + 1 (212) 286-9344 F +1 (212) 286-9570
www.iaasb.org