

International Standards on Review Engagements (ISRE 2400 and 2410)

By CPA Stephen Obock
sobock@kpmg.co.ke
+254 712601624

Agenda

- a) 2400 – Engagements to review historical financial statements
- b) 2410 - Review of Interim Financial information performed by the independent auditor of the entity

Overview of IFAC standards



IFAC (IRBA) Code of Ethics and International Standard in Quality Control (ISQC 1)				
International Framework for Assurance Engagements			Related Services	
Audits and Reviews of Historical Financial Information		Assurance Engagements other than Audits or Reviews of Historical Financial Information		
ISA International Standards on Auditing	ISRE International Standards on Review Engagements	ISAE International Standards on Assurance Engagements	ISRS International Standards on Related Services	
Reasonable Assurance	Limited Assurance	Reasonable or Limited Assurance	No Assurance	

ISRE 2400 -ENGAGEMENTS TO REVIEW HISTORICAL FINANCIAL STATEMENTS



Scope covered:

- a) Practitioner's responsibilities on a review of historical financial statements when the practitioner is not the auditor of the entity's financial statements and
- b) The form and content of the report that the practitioner issues in connection with such a review.
- c) Limited assurance engagements for information other than historical financial information performed under ISAE 3000.

QUALITY CONTROL



- ISQC1 applies to firms of professional accountants in respect of engagements to review financial statements
- Premised on basis that firm is subject to ISQC 1:
 - ✓ The firm and its personnel comply with professional standards and applicable legal and regulatory requirements.
 - ✓ Report issued is appropriate in the circumstances.
- Key to an SMP - Acceptance and continuation, engagement performance and monitoring.

REVIEW OF HISTORICAL FINANCIAL STATEMENTS



- Provide limited assurance
- Practitioner expresses a conclusion to enhance degree of confidence of intended users of an entity's financial statements
- A negative assurance on the FS is expressed when FSs present a true and fair view in accordance with the identified financial reporting framework.
- Procedures consist primarily inquiry and analytical procedures.
- Practitioner issues a modified conclusion for uncorrected material misstatements and/or inability to obtain sufficient evidence

Objective of a Review Engagement

Obtain limited assurance, primarily by performing inquiry and analytical procedures, about whether the financial statements as a whole are free from material misstatement, thereby enabling 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 an applicable financial reporting framework [par 14] (negative assurance).

Key definitions

- a) Analytical procedures - Evaluations of financial information through analysis of plausible relationships (correlations), fluctuations (trends, changes) among both financial and non-financial data.
- b) Inquiry - Inquiry consists of seeking information of knowledgeable persons, both financial and non-financial, from within or outside the entity.

General Principles of a Review Engagement

1. Ethical principles

- a) independence;
- b) integrity;
- c) objectivity;
- d) professional competence and due care;
- e) confidentiality;
- f) professional behavior; and
- g) technical standards.

General Principles of a Review Engagement

2. Plan and perform the review with professional skepticism and exercise professional judgment
3. Perform engagement level quality control
 - ✓ Engagement acceptance
 - ✓ Monitoring process
 - ✓ Laws and regulations
 - ✓ Agreeing terms of engagement (contracting)
4. Communication with Management / Governance on a timely basis on matters of importance as is appropriate

Performing the engagement

- Determine materiality for the financial statements as a whole, and apply this materiality in designing the procedures and in evaluating the results obtained from those procedures.
- Obtain an understanding of the entity and its environment, and the applicable financial reporting framework, to identify areas in the financial statements where material misstatements are likely to arise and thereby provide a basis for designing procedures to address those areas.

Performing the engagement

Designing and Performing Procedures

- Perform inquiry and analytical procedures:
 - a) To address all material items in the financial statements, including disclosures; and
 - b) To focus on addressing areas in the financial statements where material misstatements are likely to arise.

Performing the engagement - inquires

- ❖ Inquiries of management shall include:
 - Significant accounting policies used and their application
 - Development of significant accounting estimates
 - Identification of related parties / transactions
 - Significant, unusual and complex transactions including changes in operations, contracts, significant transactions, journals, related party transactions etc.

Performing the engagement - inquires

- ❖ Inquiries of management shall include:
 - Existence of any actual or suspected or alleged:
 - ✓ Frauds or illegal acts.
 - ✓ Non-compliance with laws and regulations.
 - Ability to continue as a going concern.
- ❖ Evaluating responses is integral to the inquiry process - consistency and reasonableness in light of results obtained from other procedures.

Performing the engagement - inquires

- ❖ Inquiries of management may include:
 - Control environment
 - Procedures for recording classifying and summarising transactions
 - Completeness of transactions
 - Key resolutions
 - Communication from regulatory agencies
 - Subsequent events

Performing the engagement – Analytical procedures



- ❖ Data from accounting system and records is satisfactory.
- ❖ Considerations relevant:
 - Source of information
 - Comparability
 - Nature and relevance of information available
 - Controls over preparation and review of information.

Performing the engagement – Other procedures

Related Party

- ❖ Remain alert to related party transactions not previously identified or disclosed.
- ❖ Additional inquiry on nature of the transactions and business rationale.

Fraud and Non-compliance With Laws & Regulations

- ❖ Communicate to senior management / governance.
- ❖ Communication to third parties.
- ❖ Effect on the financial statements.

Performing the engagement – Other procedures



Going Concern

- ❖ If there is a significant doubt about the entity to continue as a going concern:
 - Plans for future action and their feasibility
 - Assess whether financial statements are materially misstated
 - Assessment of at least 12 months from date of financial statements.

Reconciling to Underlying Accounting Records

- ❖ Tracing the financial statement amounts and balances to the relevant accounting records e.g. general ledger / trial balance.
- ❖ Review accounting to identify significant or unusual transactions.

Obtain written representation

- ❖ Management has fulfilled its responsibility for the preparation of financial statements.
- ❖ Provided the practitioner with all relevant information and access to information.
- ❖ All transactions have been recorded and are reflected in the financial statements.
- ❖ The identity of the entity's related parties / related party relationships / transactions of which management is aware.
- ❖ Significant facts relating to any frauds or suspected frauds known to management that may have affected the entity.
- ❖ Known actual or possible non-compliance with laws and regulations.

Obtain written representation

- ❖ All information relevant to the preparation of the financial statements in accordance with the going concern assumption.
- ❖ Significant events that have occurred subsequent to the date of the financial statements and through to the date of the practitioner's report, that may require adjustments.
- ❖ If management representations not provided:
 - Disclaim a conclusion on the financial statements; or
 - Withdraw from the engagement if permitted by law.
- ❖ Date of the written representations - as near as practicable to, but not after, the date of the practitioner's report.

Form a conclusion

- ❖ Evaluating Evidence Obtained from the Procedures Performed
- ❖ The practitioner shall consider the impact of:
 - Unadjusted misstatements identified during the review, and in the previous year's review of the entity's financial statements, on the financial statements as a whole; and
 - Qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments.
- ❖ Not an audit - practitioner does not express an audit opinion.
- ❖ Special purpose financial statements - alert to the users that the financial statements may not be suitable for other purposes / supplemented by restriction on distribution.

Form a conclusion



- ❖ The practitioner shall consider the impact of:
 - Unadjusted misstatements identified during the review, and in the previous year's review of the entity's financial statements, on the financial statements as a whole; and
 - Qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments.
- ❖ Not an audit - practitioner does not express an audit opinion.
- ❖ Special purpose financial statements - alert to the users that the financial statements may not be suitable for other purposes and restriction on distribution.

Example Reports



Adobe Acrobat
Document

Interactive session



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

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



Scope covered:

- a) Practitioner's responsibilities on a review of interim financial information of an audit client;
- b) The form and content of the report that the practitioner issues in connection with such a review.
- c) It is to be applied, adapted as necessary in the circumstances, when an entity's auditor undertakes an engagement to review historical financial information other than interim financial information of an audit client (par 3a).

ISRE 2400 vs 2410

The principal distinction between ISRE 2400 and ISRE 2410, is that ISRE 2410 is written on the basis that the entity's auditor is able to use his or her audit- based knowledge of the entity when carrying out a review of any historical financial information.

The most common example of a review engagement that might be undertaken by an entity's auditor is the review of interim financial information issued by a public company for which ISRE 2410 was specifically prepared;

In 2007, an amendments was made to make clear that when approving ISRE 2410, the IAASB did not intend to remove reviews by an entity's auditor of historical financial information other than interim financial information from the scope of the ISREs.

Key aspects of ISRE 2410

- The auditor who has audited the entity's financial statements for one or more annual periods has obtained an understanding of the entity and its environment, including its internal control, as it relates to the preparation of annual financial information that was sufficient to conduct the audit. In planning a review of interim financial information, the auditor updates this understanding.
- The auditor uses the understanding of the entity and its environment, including its internal control, to determine the inquiries to be made and the analytical and other review procedures to be applied, and to identify the particular events, transactions or assertions to which inquiries may be directed or analytical or other review procedures applied.

Analytical Procedures the Auditor May Consider When Performing a Review of Interim Financial Information



Adobe Acrobat
Document

Example reports



Adobe Acrobat
Document

Interactive session

