Agenda Item 1B

Reviews Performed in Accordance With International Standard on Review Engagements 2400 (Revised), *Engagements to Review Historical Financial Statements*

This analysis was prepared by the AICPA Audit and Attest Standards staff to highlight requirements that accountants who are engaged to perform a review engagement in accordance with International Standard on Review Engagements 2400 (Revised), *Engagements to Review Historical Financial Statements* (ISRE 2400 (Revised))are required to perform in addition to those requirements in AR-C section 90, *Review of Financial Statements*. This analysis is not authoritative and is prepared for informational purposes only. It has not been acted on, or reviewed by, the Accounting and Review Services Committee (ARSC).

Statements on Standards for Accounting and Review Services (SSARSs) are standards issued by ARSC. "The Compliance With Standards Rule" of the AICPA Code of Professional Conduct (the "Code") requires a member who performs compilation, review, or other professional services addressed by SSARSs to comply with standards promulgated by ARSC.

An accountant practicing in the United States of America may be engaged to review the financial statements of an entity in accordance with ISRE 2400 (Revised). In those circumstances where the accountant's review report states that the review was conducted in accordance with ISRE 2400 (Revised), the U.S. accountant should comply with both ISRE 2400 (Revised) and, as required by the Code, SSARSs. An engagement of this nature is ordinarily conducted by performing a review in accordance with SSARSs plus performing any additional procedures required by ISRE 2400 (Revised).

The purpose of this document is to assist the U.S. accountant in planning and performing an engagement in accordance with ISRE 2400 (Revised). However, to fully understand how ISRE 2400 (Revised) might affect the nature, timing, and extent of the procedures performed in an engagement in accordance with SSARSs, the accountant should consider ISRE 2400 (Revised) in its entirety by considering the standard together with the related guidance included in ISRE 2400 (Revised). In performing a review in accordance with ISRE 2400 (Revised), the accountant also needs to comply with International Federation of Accountant's Code of Ethics.

This analysis compares ISRE 2400 (Revised), as issued as a final pronouncement in September 2012, to AR-C section 90, *Reviews of Financial Statements*.

Incremental procedures to be performed by the accountant are shown in ***bold italics.***

Incremental Procedures to be Performed in a Review in Accordance with ISRE 2400 (Revised)

- **Agreement on Engagement Terms**

In addition to the elements required by paragraph .11 of AR-C section 90, the agreed-upon terms of the engagement should include the intended use and distribution of the financial statements, and any restrictions on use or distribution where applicable.[1]

- **Materiality**

The accountant performing a review in accordance with ISRE 2400 (Revised) is required to determine materiality for the financial statements as a whole and apply that materiality in designing procedures and evaluating the results obtained from those procedures.[2] See appendix A for a list of procedures in which the accountant would be required to apply this materiality.

- **Knowledge of the Entity**

As part of the requirement in paragraph .15 of AR-C section 90 to obtain knowledge about the entity, the accountant should obtain an understanding of:

(a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework;

(b) The nature of the entity, including:

(i) Its operations;

(ii) Its ownership and governance structure;

(iii) The types of investments that the entity is making and plans to make;

(iv) The way that the entity is structured and how it is financed; and

(v) The entity's objectives and strategies;

(c) The entity's accounting systems and accounting records; and

(d) The entity's selection and application of accounting policies.[3]

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[1] Pursuant to paragraph 37(a) of ISRE 2400 (Revised)
[2] Pursuant to paragraph 43 of ISRE 2400 (Revised)
[3] Pursuant to paragraph 46 of ISRE 2400 (Revised)

- **Designing and Performing Review Procedures**

In addition to the requirement in paragraph .18 of AR-C section 90 that the accountant focus analytical inquiries and inquiries in those areas where the accountant believes that there are increased risks of material misstatement, the accountant should also design and perform analytical procedures and inquiries to address all material items in the financial statements, including notes.[4]

- **Inquiries of Members of Management Who Have Responsibility for Financial and Accounting Matters**

In addition to the inquiries required by paragraph .22 of AR-C section 90, the accountant should also inquire of members of management who have responsibility for financial and accounting matters concerning the financial statements about:

a. how management makes the significant accounting estimates required under the applicable financial accounting framework[5]

b. the identification of related parties and related party transactions, including the purpose of those transactions.[6]

c. whether there are significant, unusual or complex transactions, events, or matters that have affected or may have an effect on the financial statements, including:

(i) Significant changes in the entity's business activities or operations;

(ii) Significant changes to the terms of contracts that materially affect the entity's financial statements, including terms of finance and debt contracts or covenants;

(iii) Significant journal entries or other adjustments to the financial statements;

(iv) Significant transactions occurring or recognized near the end of the reporting period;

(v) The status of any uncorrected misstatements identified during previous engagements; and

(vi) Effects or possible implications for the entity of transactions or relationships with related parties;[7]

d. the basis for management's assessment of the entity's ability to continue as a going concern.[8]

[4] Pursuant to paragraph 47(a) of ISRE 2400 (Revised)
[5] Pursuant to paragraph 48(a) of ISRE 2400 (Revised)
[6] Pursuant to paragraph 48(b) of ISRE 2400 (Revised)
[7] Pursuant to paragraph 48(c) of ISRE 2400 (Revised)
[8] Pursuant to paragraph 48(f) of ISRE 2400 (Revised)

e. whether there are events or conditions that appear to cast doubt on the entity's ability to continue as a going concern.[9]

f. material commitments, contractual obligations or contingencies that have affected may affect the entity's financial statements, including disclosures.[10]

g. material non-monetary transactions or transactions for no consideration in the financial reporting period under consideration.[11]

- **Other Review Procedures**

The accountant performing a review in accordance with ISRE 2400 (Revised) is required to remain alert for arrangements or information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the practitioner.[12] If the practitioner identifies significant transactions outside the entity's normal course of business in the course of performing the review, the practitioner shall inquire of management about:

(a) The nature of those transactions;

(b) Whether related parties could be involved; and

(c) The business rationale (or lack thereof) of those transactions.[13]

If, during the performance of the review, the accountant becomes aware of events or conditions that may cast significant doubt about the entity's ability to continue as a going concern, the accountant performing a review in accordance with ISRE 2400 (Revised) is required to:

(a) Inquire of management about plans for future actions affecting the entity's ability to continue as a going concern and about the feasibility of those plans, and also whether management believes the outcome of those plans will improve the situation regarding the entity's ability to continue as a going concern;

(b) Evaluate the results of those inquiries, to consider whether management's responses provide a sufficient basis to:

(i) Continue to present the financial statements on the going concern basis if the applicable financial reporting framework includes the assumption of an entity's continuance as a going concern; or

(ii) Conclude whether the financial statements are materially misstated, or are otherwise misleading regarding the entity's ability to continue as a going concern; and

[9] Pursuant to paragraph 48(g) of ISRE 2400 (Revised)
[10] Pursuant to paragraph 48(h) of ISRE 2400 (Revised)
[11] Pursuant to paragraph 48(i) of ISRE 2400 (Revised)
[12] Pursuant to paragraph 50 of ISRE 2400 (Revised)
[13] Pursuant to paragraph 51 of ISRE 2400 (Revised)

(c) Consider management's responses in light of all relevant information of which the practitioner is aware as a result of the review[14]

- **Using the Work of Other Accountants**

  If the accountant uses work performed by another accountant or an expert in the course of performing the review, the accountant performing a review in accordance with ISRE 2400 (Revised) is required to take appropriate steps to be satisfied that the work performed is adequate for the practitioner's purposes.[15]

- **Evaluating Evidence Obtained From the Procedures Performed**

In determining, in accordance with paragraph .28 of AR-C section 90, whether material modification should be made to the financial statements for them to be in accordance with the applicable financial reporting framework the accountant should consider the impact of:

(a) uncorrected misstatements identified during the previous year's review of the entity's financial statements, if applicable; and[16]

(b) qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments[17]

(c) The overall presentation, structure and content of the financial statements in accordance with the applicable framework; and [18]

(d) Whether the financial statements, including the related notes, appear to represent the underlying transactions and events in a manner that achieves fair presentation in the context of the financial statements as a whole.[19]

- **Written Representations**

In addition to the written representations required by paragraph .22 of AR-C section 90, the accountant should also request management to provide written representations stating that:

a. management has disclosed to the accountant all information relevant to the use of the going concern assumption in the financial statements.[20]

[14] Pursuant to paragraph 54 of ISRE 2400 (Revised)
[15] Pursuant to paragraph 55 of ISRE 2400 (Revised)
[16] Pursuant to paragraph 70(a) of ISRE 2400 (Revised)
[17] Pursuant to paragraph 70(b) of ISRE 2400 (Revised)
[18] Pursuant to paragraph 71(a) of ISRE 2400 (Revised)
[19] Pursuant to paragraph 71(b) of ISRE 2400 (Revised)
[20] Pursuant to paragraph 62(d) of ISRE 2400 (Revised)

b. management has disclosed material commitments, contractual obligations or contingencies that have affected or may affect the entity's financial statements, including disclosures.[21]

c. management has disclosed material non-monetary transactions or transactions for no consideration undertaken by the entity in the financial reporting period under consideration.[22]

- **Consideration of the Applicable Financial Reporting Framework in Relation to the Financial Statements**

In forming the conclusion on the financial statements, the accountant is required to

(a) Evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework;

(b) Consider whether, in the context of the requirements of the applicable financial reporting framework and the results of procedures performed:

i. The terminology used in the financial statements, including the title of each financial statement, is appropriate;

ii. The financial statements adequately disclose the significant accounting policies selected and applied;

iii. The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;

iv. Accounting estimates made by management appear reasonable;

v. The information presented in the financial statements appears relevant, reliable, comparable, and understandable; and

vi. The financial statements provide adequate disclosures to enable the intended users to understand the effects of material transactions and events on the information conveyed in the financial statements.[23]

- **Communicating to Management and Others Regarding Fraud or Noncompliance With Laws and Regulations**

In addition to the communication requirements in paragraph .51 of AR-C section 90, an accountant performing a review in accordance with ISRE 2400 (Revised) should:

(a) Communicate indications of noncompliance with laws or regulations or suspected noncompliance with laws or regulations to the appropriate level of senior management or those charged with governance, as appropriate[24]

[21] Pursuant to paragraph 62(f) of ISRE 2400 (Revised)
[22] Pursuant to paragraph 62(g) of ISRE 2400 (Revised)
[23] Pursuant to paragraph 69 of ISRE 2400 (Revised)
[24] Pursuant to paragraph 52(a) of ISRE 2400 (Revised)

(b) Request management's assessment of the effect(s), if any, of the suspected fraud or noncompliance with laws or regulations on the financial statements[25]

(c) Determine whether there is a responsibility to report the occurrence or suspicion of fraud or noncompliance with laws or regulations to a party outside the entity.[26]

- **Review Documentation**

In addition to the documentation requirements in paragraphs .91-.92 of AR-C section 90, an accountant performing a review in accordance with ISRE 2400 (Revised), in documenting the nature, timing and extent of procedures performed, the accountant is required to record:

(a) Who performed the work and the date such work was completed; and

(b) Who reviewed the work performed for the purpose of quality control for the engagement, and the date and extent of the review.[27]

In meeting the requirement in paragraph .91c of AR-C section 90 that the accountant prepare review documentation that is sufficient to enable an experienced accountant, having no previous connection to the review, to understand significant findings or issues arising during the review, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions, the accountant should document information that the accountant identified that is inconsistent with the accountant's findings regarding significant matters affecting the financial statements and how the inconsistency was addressed.[28]

In addition to the documentation required by paragraph 92 of AR-C section 90, the accountant should document discussions with management, those charged with governance, and others as relevant to the performance of the review of significant matters arising during the engagement, including the nature of those matters.[29]

[25] Pursuant to paragraph 52(b) of ISRE 2400 (Revised)
[26] Pursuant to paragraph 52(d) of ISRE 2400 (Revised)
[27] Pursuant to paragraph 94 of ISRE 2400 (Revised)
[28] Pursuant to paragraph 96 of ISRE 2400 (Revised)
[29] Pursuant to paragraph 95 of ISRE 2400 (Revised)

Appendix A – Procedures in which the accountant would apply calculated materiality amount:

General Area	AR-C section 90 Paragraph #	Required Procedures
Knowledge of the Entity	.15	The accountant should obtain knowledge about the entity, including an understanding of a. the entity's business and b. the accounting principles and practices used by the entity sufficient to identify areas in the financial statements where there is a greater likelihood that material misstatements may arise and to be able to design procedures to address those areas.
Designing and Performing Review Procedures	.17	The accountant should design and perform analytical procedures and make inquiries and perform other procedures, as appropriate, to obtain limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements in order for the statements to be in accordance with the applicable financial reporting framework based on the accountant's a. understanding of the industry, b. knowledge of the entity, and

General Area	AR-C section 90 Paragraph #	Required Procedures
		c. awareness of the risk that the accountant may unknowingly fail to modify the accountant's review report on financial statements that are materially misstated.
	.18	The accountant should focus the analytical procedures and inquiries in those areas where the accountant believes that there are increased risks of material misstatement.
Analytical Procedures	.19	The accountant should apply analytical procedures to the financial statements to identify and provide a basis for inquiry about the relationships and individual items that appear to be unusual and that may indicate a material misstatement.
	.20(c)	When designing and performing analytical procedures, the accountant should develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to provide the accountant with limited assurance that a misstatement will be identified that, either individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated.
Inquiries of Members of Management Who Have Responsibility for Financial and Accounting Matters	.22f	The accountant should inquire of members of management who have responsibility for financial and accounting matters concerning the financial statements about events subsequent to the date of the financial statements that could have a material effect on the fair presentation of such financial statements.

General Area	AR-C section 90 Paragraph #	Required Procedures
	.22g(iii)	The accountant should inquire of members of management who have responsibility for financial and accounting matters concerning the financial statements about its knowledge of fraud or suspected fraud affecting the entity involving others when the fraud could have a material effect on the financial statements.
Evaluating Evidence Obtained From the Procedures Performed	.28	The accountant should evaluate, individually and in the aggregate, misstatements, including inadequate disclosure, accumulated in accordance with paragraph .27 to determine whether material modification should be made to the financial statements in order for them to be in accordance with the applicable financial reporting framework.
	.29b	The accountant should consider the results of management's consideration of the effect of incorrect, incomplete, or otherwise unsatisfactory information on the financial statements and whether such results indicate that the financial statements may be materially misstated.
Communicating to Management and Others Regarding Fraud or Noncompliance With Laws and regulations	.51	If the fraud or noncompliance with laws or regulations involves senior management or results in a material misstatement of the financial statements, the accountant should communicate the matter directly to those charged with governance.
Emphasis-of-Matter Paragraphs in the Accountant's Review Report	.52	If the accountant considers it necessary to draw users' attention to a matter appropriately presented or disclosed in the financial statements that, in the accountant's professional judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the accountant should include an emphasis-of-matter paragraph in the

General Area	AR-C section 90 Paragraph #	Required Procedures
		accountant's review report, provided that the accountant does not believe that the financial statements may be materially misstated.
Known Departures From the Applicable Financial Reporting Framework	.56	When the accountant becomes aware of a departure from the applicable financial reporting framework (including inadequate disclosure) that is material to the financial statements and if the financial statements are not revised, the accountant should consider whether modification of the standard report is adequate to disclose the departure.
Required Supplementary Information	.84e	If the measurement or presentation of the required supplementary information departs materially from the prescribed guidelines, the other-matter paragraph on required supplement information should include a statement that material departures from prescribed guidelines exist [*describe the material departures from the applicable financial reporting framework*]