

Review Engagements for SMEs

Limited Assurance, Numerous Benefits

An audit is probably the most common form of assurance worldwide but it's not the only one, and in some cases, it might not be the right one. Small- and medium-sized entities (SMEs) are often not required by legislation to have an audit. Lacking the complexity of their larger counterparts, an audit doesn't necessarily make sense for an SME, and the costs may outweigh the value added for these small operations. There are other forms of assurance that may be more cost-effective and better suited to meet their needs. SMEs can look to their accountants and their statement users to help them determine what level of assurance on their financial statements is most appropriate.

A review engagement, for example, is another form of assurance that can meet the needs of some SMEs without putting an undue strain on time and other resources.

What is a Review Engagement?

A review is a limited assurance engagement. It provides less assurance than an audit but more than a compilation engagement, which offers no assurance. The International Auditing and Assurance Standards Board (IAASB) revised International Standard on Review Engagements (ISRE) 2400, Engagements to Review Historical Financial Statements, in 2012. ISRE 2400 (Revised) is designed not only to provide an effective and consistent level of limited assurance on financial statements but also to allow for efficient delivery of the service proportionate to the complexity of the statements reviewed. The revised standard includes strengthened requirements and additional guidance to promote a clearer understanding of the nature of a review engagement.

Merits of a Review Engagement

SMEs that are not required by law to have an audit may still want some level

of independent assurance to increase the credibility of their financial statements, for example, when seeking a loan from a bank. In these cases, a review can be an ideal solution. Additionally, since the work effort involved in performing a review engagement is generally less than that in conducting an audit, a review should be a more cost-effective option while still involving the financial reporting expertise of an independent professional accountant.

When to Conduct a Review Engagement

Under ISRE 2400 (Revised), a review engagement may only be performed when it both serves a rational purpose and is appropriate under the circumstances. An engagement without a rational purpose, for example, is one in which management unreasonably restricts the practitioner's inquiries to specific individuals. A review may not be appropriate, for example, for complex entities, such as banks or insurance companies, for which inquiry and analytical procedures alone may not reduce engagement risk sufficiently. In these cases, an audit or a compilation engagement may be more appropriate.

Where Can I Learn More?

The IFAC Small and Medium Practices (SMP) Committee has developed a comprehensive guide to help IFAC member organizations and their members in practice, especially SMPs, understand and implement ISRE 2400 (Revised). The Guide to Review Engagements is planned for release in December 2013, which is also when the updated standard goes into effect (effective for periods ending on or after December 31, 2013).

Practitioners can use the guide to develop a deeper understanding of a review engagement conducted in compliance with ISRE 2400 (Revised)



through explanation and illustrative examples. The guide also includes a number of appendices with key checklists and forms that practitioners can adapt to meet the requirements and circumstances in their particular jurisdiction.

Additional Resources

Visit the SMP area of the IFAC website at www.ifac.org/SMP to access this and additional guides from the SMP Committee, learn more about the committee's activities, and subscribe to the SMP eNews. While the guide includes relevant extracts from ISRE 2400 (Revised), the complete standard is available in the 2013 IAASB Handbook.

- o Guide to Review Engagements, www.ifac.org/SMP (Coming December 2013)
- o 2013 Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements, www.iaasb.org
- o At-a-Glance, ISRE (2400), www.iaasb.org
- o Join the discussion and stay informed! Follow the SMP Committee on Twitter (@IFAC_SMP), Delicious (especially those articles tagged Review & Compilation), and LinkedIn (IFAC SMP Community).

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