
INDEPENDENT REGULATORY BOARD FOR AUDITORS

COMMITTEE FOR AUDITING STANDARDS

Illustrative ISRE 2400 Independent Reviewer's Reports

Johannesburg / 08 September 2011

The Committee for Auditing Standards (CFAS) wishes to respond to requests from registered auditors (RAs) for interim guidance for an illustrative *Independent Reviewer's Report*, that will ensure compliance with the extant ISRE 2400 *Engagements to Review Financial Statements* (ISRE 2400), currently prescribed by the IRBA for RAs and that meets the additional requirements of the Companies Act, 2008 (the Act) and Regulations, 2011. The CFAS has approved two illustrative unmodified Independent Reviewer's Reports with wording that it believes will meet the needs of Sections 29(1)(a) and (1)(b) and 29(2) of the Companies Act, 2008 (the Act) and Regulations 26, 27 and 29 for an independent review, whilst still applying the principles in the extant ISRE 2400.

Companies Act, 2008 and Regulatory requirements

Regulation 29 provides for the appointment of an independent accounting professional to perform an independent review of annual financial statements and to provide a review opinion on the annual financial statements of those companies or close corporations that meet the Public Interest Score (PIS) below 350, and not required to have an audit. Regulation 29(3) provides further that "*a company to which this regulation applies must have its annual financial statements independently reviewed in accordance with ISRE 2400*", specified in Regulation 26(1)(f) as that issued by the IAASB from time to time.

Where a financial reporting framework is prescribed

Regulation 27 specifies the "*Financial Reporting Standard*" to be applied by profit companies and non-profit companies. Those companies, and close corporations, **whose PIS is at least 100 but less than 350**, or whose **PIS is less than 100 but whose financial statements are independently compiled**, must apply one of the recognised *fair presentation* financial reporting frameworks specified in Regulation 27, namely IFRS, IFRS for SME's or SA GAAP. The first illustrative independent reviewer's report approved by the CFAS, now issued, provides an example of an unmodified **limited assurance (negative) conclusion** on the **fair presentation of the financial statements in accordance with the FRF and the Act**.

Where a financial reporting framework is not prescribed

Regulation 27 also provides for **profit and non-profit companies with a PIS less than 100 whose financial statements are internally compiled, to apply the Financial Reporting Standard as determined by the company for as long as no Financial Reporting Standard is prescribed**.

The CFAS interprets this Regulation as accommodating circumstances of close corporations, or companies, requiring a review, who would not necessarily have complied with IFRS, IFRS for SMEs or SA GAAP previously, or who choose not to continue to apply one of these FRFs, and must determine the "**basis of accounting**" applied, and disclose this in their financial statements. Such circumstances are accommodated by Paragraph 6(b) of ISA 800 *Special Considerations – Audits Of Financial Statements Prepared In Accordance With Special Purpose Frameworks* recognises that: "*the special purpose framework is designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework*". Paragraph 8 of ISA 800 requires the auditor, or in this case, the independent reviewer, to determine the acceptability of the financial reporting framework applied.

In considering the acceptability of the basis of accounting applied for purposes of the Act and Regulations independent reviewers must refer to Section 29(1) and (2) of the Act which requires that: *“if a company provides any financial statements, including any annual financial statements, statements to any person for any reason, those financial statements for any reason, those financial statements must:*

- a) *Satisfy the financial reporting standards as to form and content **if any such standards are prescribed;***
- b) *Present fairly the state of affairs and business of the company, and explain the transactions and financial position of the business of the company;*
- c) *Show the company’s assets liabilities and equity, as well as its income and expenses, an any other prescribed information; ...”*

Further in Section 29(2) **“any financial statements prepared by a company, including any annual financial statements as contemplated in section 30 must not be:**

- a) **False or misleading in any material respect; or**
- b) **Incomplete in any material particular, ... “**

Consequently, a cash basis or tax basis of accounting, for example, would not meet the requirements of the Act. It is anticipated that this situation may continue until such time as the Minister, in consultation with the Financial Reporting Council, prescribes a financial reporting standard to be applied. The second illustrative unmodified independent reviewer’s report approved by the CFAS, now issued, provides an interim reporting solution based on a **compliance framework with a limited assurance (negative) conclusion regarding the preparation, in all material respects, of the financial statements in accordance with the basis of accounting described and the requirements of the Act.**

International Standard on Engagements to Review Financial Statements (ISRE) 2400

The extant ISRE 2400 has been effective for reviews of financial statements for periods beginning on or after 15 December 2006 and was neither revised, nor updated, as part of the IAASB clarity project. Although ISRE 2400 does not reflect the significant changes in the clarified ISAs, it indicates in paragraph 2 that *“Guidance in the International Standards on Auditing (ISAs) may be useful to the practitioner in applying this ISRE 2400”*, when performing a review engagement. The Proposed ISRE 2400 (Revised) *Engagements to Review Historical Financial Statements* is expected to be issued in 2012.

The CFAS believes the example of an unmodified review report in the extant ISRE 2400 does not appropriately reflect the responsibilities of the independent reviewer as required by the Act and Regulations. Consequently, the CFAS has determined that the format of the example review reports contained in the Proposed ISRE 2400 (Revised) are more appropriate to meet the requirements of the Act and the Regulations as indicated above, whilst still complying with the principles in the extant ISRE 2400 and form the basis for the two illustrative independent reviewer’s reports approved by CFAS.

The illustrative reports are available in both PDF and Word formats and may be downloaded from the IRBA [website](#). Should you have any further queries or experience any technical difficulties in downloading the documents please do not hesitate to contact the Standards Department at +27 (0)87 940 8800 or send an email to standards@irba.co.za.

Sandy van Esch
Director: Standards

About the IRBA

The objective of the IRBA is to endeavour to protect the financial interests of the South African public and

international investors in South Africa through the effective and appropriate regulation of audits conducted by registered auditors, in accordance with internationally recognised standards and processes.

*With effect from December 2010 the IRBA's postal addresses have changed to:
PO Box 8237, Greenstone, 1616
Docex: DX008, Edenvale*