



## STATEMENT OF REVIEW ENGAGEMENT STANDARDS 1

### Statement of Review Engagement Standards (RS 1)

Issued July 2011

Effective for reviews of historical financial statements for periods beginning on or after 1 September, 2011. Effective for other review engagements beginning on or after 1 September, 2011.

This Standard was issued by the External Reporting Board pursuant to section 24(1)(b) of the Financial Reporting Act 1993. This Standard is a Regulation for the purpose of the Regulations (Disallowance) Act 1989.

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ISBN 978-1-927174-36-4

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**Introduction**

1. The Statement of Review Engagement Standards describes the fundamental principles governing assurance providers' professional responsibilities which shall be complied with whenever a review engagement is carried out.
2. These Standards are effective for reviews of historical financial statements for periods beginning on or after 1 September, 2011. These Standards are effective for other review engagements beginning on or after 1 September, 2011.

3. Compliance with the Standards requires the application of review procedures and reporting practices appropriate to the particular circumstances of each review engagement.
4. These Standards are directed towards engagements involving financial information. The Standards may be adapted to cover engagements involving non-financial information (such as reports on the design or effective operation of a system of internal accounting control or computer software and on compliance with statutory or regulatory requirements) provided the assurance provider has adequate knowledge of the subject matter in question.

### **Function of a Review Engagement**

5. A review is an examination of financial information of any entity, whether profit-oriented or not and irrespective of its size or legal form, when such an examination is conducted with the objective of providing a report that nothing has come to the assurance provider's attention to cause the assurance provider to believe that the financial information does not present a true and fair view, and which may result in the reader obtaining a moderate level of assurance on the financial information. (The term "financial information" encompasses financial statements.)
6. A review report helps lend some credibility to the financial information. The user, however, should not assume from the assurance provider's report that an audit has been performed and that a high level of assurance can be placed on the assurance provider's report. The user should also not assume that the assurance provider's report is an assurance as to the future viability of the entity, nor an opinion as to the efficiency or effectiveness with which management has conducted the affairs of the entity.

### **Responsibility for the Financial Information**

7. While the assurance provider is responsible for providing a review report on the financial information, the responsibility for the preparation of the financial information and the assertions contained therein, lies with the management of the entity. Management's responsibilities include the maintenance of adequate accounting records and internal controls, the selection and application of appropriate accounting policies, and the safeguarding of the assets of the entity. The review of the financial information does not relieve management of its responsibilities.

### **Scope of a Review**

8. The assurance provider normally determines the scope of a review of financial information in accordance with the Review Engagement Standards, the requirements of relevant legislation and regulations, and the terms of the review engagement. Reviews in accordance with legislation, for example those under the Prudential Supervision Regulations, can be extended in scope, but may not be limited or reduced below that contained in the Review Engagement Standards.
9. It is essential that there is a clear understanding between assurance provider and client as to the extent and nature of the assurance provider's duties and responsibilities, particularly when there is no specific statutory duty involved. It is desirable that such understanding is evidenced in writing.

10. Any constraint on the scope of the review of financial information should be carefully considered by the assurance provider before accepting the review engagement, to determine whether it impairs the assurance provider's ability to provide the moderate level of assurance. If the constraints are significant enough to impair the assurance provider's ability to render an unqualified review report, the assurance provider should not accept the review engagement.
11. Judgement permeates the reviewer's work, whether in deciding the nature, timing and extent of review procedures or in assessing the reasonableness of the judgements and estimates made by management in preparing the financial information. Furthermore, much of the evidence available to the assurance provider is persuasive rather than conclusive. Because of this, absolute certainty is not attainable from review procedures.
12. In forming a negative assurance report on the financial information, the assurance provider carries out procedures designed to obtain a moderate level of assurance that the financial information is not materially misstated based on the extent of review work that the assurance provider performed. Because a review is based on enquiries and analytical procedures and the exercise of judgement there is an unavoidable risk that some material misstatements may remain undiscovered. However, any indication that an error (or fraud) may have occurred which could result in material misstatement should cause the assurance provider to undertake such investigation as is necessary to confirm or dispel these suspicions. In these circumstances the client should be advised.

## **Review Standard 1**

### **Integrity, Objectivity and Independence**

**The assurance provider's approach to assurance work should be straightforward, honest and sincere. The assurance provider should be fair and should not allow prejudice or bias to override objectivity. The assurance provider should be free of any interest which might be regarded, whatever its actual effect, as being incompatible with integrity and objectivity.**

### **Discussion**

- 1.1 It is the duty of the assurance provider to maintain integrity and objectivity. That duty is the essence of the assurance provider's assurance work. Anything which tends to impair or might appear to impair that objectivity in relation to any particular assignment or client may cast doubt on the propriety of accepting or continuing with the work in question.
- 1.2 To preserve integrity and objectivity, the assurance provider should maintain freedom from any conflicting interest or improper influence and should avoid situations which may lead others to conclude that there is a conflict of interest and that objectivity is impaired.
- 1.3 Assurance providers have an obligation to ensure that all personnel engaged on assurance work adhere to the principles of integrity and objectivity.

- 1.4 Assurance providers should refer to the detailed guidelines contained in Professional and Ethical Standard 2<sup>1</sup>.

## **Review Standard 2**

### **Confidentiality**

**The assurance provider should respect the confidentiality of information acquired in the course of the review and should not disclose any such information to a third party without specific authority or unless there is a legal or professional duty to disclose.**

### **Discussion**

- 2.1 Rule 12 (paragraph 110) of Professional and Ethical Standard 1 states: “Assurance providers must respect the confidentiality of information acquired in the course of their assurance work and must not disclose such information without proper and specific authority or unless there is a legal or professional right or duty to disclose the information.”
- 2.2 An assurance provider has access to much confidential information about client affairs which is not otherwise disclosed to the public. Therefore the assurance provider shall not make unauthorised disclosures to other persons. The duty of confidentiality continues after the completion of an engagement.
- 2.3 The assurance provider also has an obligation to take steps to ensure that the staff under the assurance provider’s control and persons from whom advice and assistance is obtained faithfully respect the principle of confidentiality.
- 2.4 The principle of confidentiality goes wider than the disclosure of information. It requires that the assurance provider acquiring information in the course of professional work shall neither use nor appear to use that information for personal advantage or for the advantage of a third party.

## **Review Standard 3**

### **Skills and Competence**

**A review should be performed and the report prepared with due professional care by persons who have adequate training, experience and competence in the review of financial information.**

### **Discussion**

- 3.1 Rule 7 (paragraph 85) of Professional and Ethical Standard 1 states: “An assurance provider who accepts or undertakes assurance work must have the Competence necessary to carry out the work. Accordingly, an assurance provider must refrain from undertaking or continuing any assurance engagement which the assurance provider is not Competent to carry out, unless the assurance provider obtains such advice and assistance as will enable the assurance provider to complete the engagement in an efficient, proper and timely manner.”

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<sup>1</sup> Professional and Ethical Standard 2, “Independence in Assurance Engagements”.

- 3.2 The assurance provider requires specialised skills and competence which are acquired through a combination of general education, technical knowledge obtained through study and formal courses, and practical experience under proper supervision.
- 3.3 In addition, the assurance provider requires a continuing awareness of developments, including relevant pronouncements on accounting matters, and other regulatory and statutory requirements.
- 3.4 The assurance provider should refrain from undertaking or continuing an engagement which the assurance provider is not competent to carry out, unless competent advice and assistance is obtained so as to enable satisfactory completion of the engagement. If neither the assurance provider nor a person in the assurance provider's firm has the professional competence to perform a specific part of the engagement, technical advice may be sought from experts such as other accountants, lawyers, actuaries, engineers, geologists or valuers.

## **Review Standard 4**

### **Work Performed by Assistants and Others**

**When the assurance provider delegates work to assistants or relies upon other assurance providers or experts, the assurance provider continues to be responsible for the procedures performed under the assurance provider's direction and control. The assurance provider should carefully direct, supervise and review work delegated to assistants and should make such enquiries as will satisfy the assurance provider that the work performed by other assurance providers, assistants or experts is adequate for the assurance provider's purpose.**

### **Discussion**

- 4.1 Where the assurance provider delegates work to assistants or relies on the work of other assurance providers or experts, the assurance provider should be reasonably assured that the work will be performed by persons who have the skills and competence required in the circumstances.
- 4.2 The assurance provider, and assistants with supervisory responsibilities, should consider the skills and competence of assistants to whom work has been delegated when deciding on the extent of direction, supervision and review to be undertaken to ensure the performance of those tasks.
- 4.3 Appropriate direction should be given to assistants to whom work is delegated. Direction involves informing assistants of their responsibilities and the objectives of the procedures they are to perform. It also involves informing them of matters, such as the nature of the entity's business and possible accounting problems that may affect the nature, timing and extent of review procedures with which they are involved. Time budgets, planning memoranda and written review programmes are helpful in communicating review directions.
- 4.4 The work performed by each assistant should be reviewed to determine whether:
  - it has been performed in accordance with the standards issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board, and the individual firm's standards;
  - it has been adequately documented;

- all significant accounting matters have been resolved;
  - the objectives of the review procedures have been achieved and the conclusions expressed are consistent with the results of the work performed and support the assurance provider's review report on the financial information.
- 4.5 Where the assurance provider wishes to use the work of other assurance providers or experts, the assurance provider should perform procedures to obtain reasonable assurance that the work performed by other assurance providers or experts is adequate for the assurance provider's purpose.
- 4.6 The assurance provider should be satisfied with the other assurance provider's or expert's technical qualifications to perform the work which the assurance provider wishes to use in the performance of the review.
- 4.7 The assurance provider should communicate with the other assurance provider or expert in order that they are aware of the reason for the work that is to be performed. The assurance provider should also conduct a review of the work performed and the conclusions reached by the other assurance provider or expert to ensure that the work has been properly performed for the purposes of the assurance provider in preparing the review report.

## Review Standard 5

### Planning

**The assurance provider's work should be planned so as to enable an effective review to be conducted in an efficient and timely manner. Plans should be based on a knowledge of the client's business and revised as necessary during the course of the review.**

### Discussion

- 5.1 Adequate planning helps to ensure that appropriate attention is devoted to important areas of the review, potential problems are promptly identified and the work is completed expeditiously. Planning also assists in proper utilisation of assistants and in co-ordination of work done by other assurance providers and experts.
- 5.2 Planning should be continuous throughout the engagement and normally involves:
- developing an overall plan for the expected scope and conduct of the review, and
  - developing a review programme showing the objective, nature, timing, and extent of review procedures.

Changes in conditions or unexpected results of review procedures may cause revisions of the overall plan and of the review programme. The reasons for significant changes should be documented.

- 5.3 The extent of planning will vary according to the size and complexity of the review, the assurance provider's previous experience with the client, and knowledge of the client's business. In a first review engagement, the assurance provider may need to extend the planning process beyond the matters discussed herein.
- 5.4 When developing the plan the assurance provider should consider the timing of review procedures, the co-ordination of any assistance expected from the client, and the availability of assistants.



- 5.5 The assurance provider should document the overall plan. The form and extent of the documentation will vary depending on the size and complexity of the engagement.

## **Review Standard 6**

### **Documentation**

**The assurance provider should document matters which are important in providing evidence that the review was carried out in accordance with the Review Engagement Standards and supports the level of assurance provided.**

### **Discussion**

- 6.1 Documentation refers to the working papers prepared or obtained by the assurance provider, and retained by the assurance provider, in connection with the performance of the review.
- 6.2 Working papers:
- aid in the planning and performance of the review;
  - aid in the supervision and review of the work of assistants; and
  - provide evidence of the review work performed to support the assurance provider's review report.
- 6.3 Working papers should record the:
- assurance provider's planning;
  - nature, timing and extent of the review procedures performed; and
  - results of such procedures and the conclusions drawn from the procedures performed.
- 6.4 Working papers should be sufficiently complete and detailed for an experienced assurance provider to obtain an overall understanding of the review. The extent of documentation is a matter of professional judgement since it is neither necessary nor practical for the assurance provider to document in the working papers every enquiry, consideration or conclusion made.
- 6.5 Significant matters which require the exercise of judgement, together with the assurance provider's conclusion thereon, should be included in the working papers.
- 6.6 The form and content of working papers are affected by matters such as the:
- nature of the engagement;
  - nature and complexity of the client's business;
  - needs in the particular circumstances for direction, supervision and review of work performed by assistants.
- 6.7 Working papers should be designed and properly organised to meet the circumstances and the assurance provider's needs for each individual engagement. The use of standardised working papers (for example, checklists, specimen letters, standard organisation of working papers) may improve the efficiency with which they are prepared and reviewed. They facilitate the delegation of work while providing a means to control its quality.

- 6.8 To improve efficiency, the assurance provider may utilise analyses and other working papers prepared by the client.
- 6.9 Working papers are the property of the assurance provider. At the assurance provider's discretion, portions of or extracts from working papers may be made available to the client. They should not, however, be a substitute for the client's accounting records.
- 6.10 The assurance provider should adopt reasonable procedures for the safe custody and confidentiality of the working papers, and should retain them for a period of time sufficient to meet the needs of the assurance provider's practice and satisfy any pertinent legal or professional requirements of record retention.

## **Review Standard 7**

### **Evidence**

**The assurance provider should obtain sufficient evidence, primarily through enquiry and analytical review procedures, to provide an appropriate basis for the review report.**

### **Discussion**

- 7.1 Evidence gathered should be sufficient to enable the assurance provider to form a negative assurance report on the financial information. In forming such a report, the assurance provider does not examine all of the information that is available nor is the assurance provider expected to review the internal control systems of the client, perform tests of transactions, or perform detailed observation or confirmation procedures such as would be required in an audit engagement.
- 7.2 The assurance provider should obtain sufficient appropriate evidence through enquiry and through the performance of analytical review techniques. Normally the assurance provider finds it necessary to rely on evidence that is persuasive rather than conclusive. The assurance provider may seek evidence from different sources or of a different nature to substantiate the assertions of management where the assurance provider has cause to doubt these assertions.
- 7.3 The assurance provider's judgement as to what is sufficient appropriate evidence is influenced by such factors as the degree of risk of misstatement. This risk may be affected by:
- the nature of the item;
  - the nature of the business carried on by the entity;
  - situations which may exert an unusual influence on management;
  - the financial position of the entity;
  - materiality of the item in relation to the financial information taken as a whole;
  - experience gained during previous reviews;
  - results of review procedures; and
  - type of information available.

## Review Standard 8

### Reporting

**The assurance provider should evaluate the conclusions drawn from the assurance provider's enquiries and review as the basis for the preparation of the assurance provider's negative assurance report on the financial information. The assurance provider's report should contain a statement that nothing has come to the assurance provider's attention which would cause the assurance provider to believe that the assertions contained in the financial information do not present a true and fair view in accordance with the disclosed basis of accounting. Where the assurance provider is unable to make such an assertion, the reasons for the inability to do so should be stated.**

### Discussion

- 8.1 When preparing a review report the assurance provider should review and assess the conclusions drawn from the review procedures in order to form a conclusion as to whether anything has come to the assurance provider's attention to cause the assurance provider not to believe that the assertions contained in the financial information present a true and fair view in accordance with the basis of accounting disclosed. Matters that the assurance provider should consider are whether:
- the financial information has been prepared in accordance with a comprehensive basis of accounting using policies which have been consistently applied;
  - the financial information complies with relevant regulations and statutory requirements;
  - the view presented by the financial information as a whole is consistent with the assurance provider's knowledge of the business of the entity; and
  - there is adequate disclosure of all material matters relevant to the proper presentation of the financial information.
- 8.2 An unqualified review report is given where the assurance provider, having completed an examination in accordance with Review Engagement Standards, is able to satisfactorily conclude on the matters contained in paragraph 8.1.
- 8.3 When the assurance provider is unable to conclude on all the matters contained in paragraph 8.1, the assurance provider should report either that:
- (a) in the assurance provider's opinion the financial information does not give a true and fair view (an adverse report);
  - (b) the assurance provider is unable to determine whether the financial information gives a true and fair view (a disclaimer of report);
  - (c) "except for" the matter(s) with which the assurance provider disagrees or "subject to" any uncertainty about which the assurance provider has been unable to be satisfied, nothing has come to the assurance provider's attention which causes the assurance provider to believe that the financial information does not give a true and fair view in accordance with the basis of accounting disclosed (a modified review report).
- 8.4 Where the assurance provider is unable to issue an unqualified review report, the assurance provider's report should leave the reader in no doubt as to its meaning and implications for the financial information. The manner in which the reasons for the

inability to issue an unqualified review report are disclosed is for the assurance provider to decide in the particular circumstances of each case. The inclusion of a separate “explanatory” paragraph immediately before the paragraph in which the assurance provider’s report is given is likely to be the clearest method of outlining the facts giving rise to the inability to issue an unqualified review report.

- 8.5 Where the assurance provider is unable to issue an unqualified review report, reference should be made to all material matters about which the assurance provider has reservations. Reasons for the inability to issue an unqualified review report should be given, together with quantification of the effect on the financial statements if this is both relevant and practicable. Where there are several matters which cause the assurance provider to be unable to issue an unqualified review report, a modification of the report on one matter should not be regarded as a reason for omitting other unrelated modifications which otherwise would have been reported.
- 8.6 *[Not used]*.