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CHAPTER 7 STANDARDS ON REVIEW ENGAGEMENTS (SRES 2000-2699)

1. SRE 2400(REVISED) ENGAGEMENTS TO REVIEW FINANCIAL STATEMENTS

OBJECTIVES

To enable the Practitioner to state

- ✚ Whether on the basis of less extensive procedures (than required in audit)
- ✚ anything has come to auditor's attention
- ✚ That causes him to believe that FS are not prepared as per appropriate financial reporting framework.

PRINCIPLES (CODE OF ETHICS)

Practitioner should comply with code of ethics issued by ICAI i.e.

- ✚ Independence
- ✚ Integrity
- ✚ Objectivity
- ✚ Professional competence and due care
- ✚ Confidentiality
- ✚ Professional conduct, and
- ✚ Technical standards.

SCOPE OF REVIEW

It is decided by

- ✚ Requirements of this standard,
- ✚ Relevant legislation and regulations &
- ✚ Terms of Review Engagement.

TERMS OF ENGAGEMENT PLANNING

1. Practitioner and client should agree on terms of review engagement to avoid any misunderstanding.
2. Engagement terms should contain
 - ✚ Objective of the service
 - ✚ Management's responsibility for FS.
 - ✚ Scope of the review, including reference to this standard
 - ✚ Unrestricted access to whatever records, documentation and other information
 - ✚ The fact that the engagement cannot be relied upon to disclose errors, violation of laws or other irregularities
 - ✚ Statement that an audit is not being performed and that an audit opinion will not be expressed

PLANNING:

- ✚ He shall plan for effective performance of review engagement.
- ✚ He should obtain/update the knowledge of the business.

WORK PERFORMED BY OTHERS

Practitioner should be satisfied that it is adequate for his purpose.

Documentation

Of Important evidences to support review report and compliance with this standard.

PROCEDURES & EVIDENCES (IMP)

“Engagements to Review FS”, procedures for the review of FS will ordinarily include:

1. Discuss terms and scope of the engagement with the client and the engagement team.
2. Prepare an engagement letter setting forth the terms and scope of the engagement.
3. Read the minutes of meetings of shareholders, the board of directors and other appropriate committees in order to identify matters that could be important to the review.
4. **Inquire:**
 - a. If actions taken at shareholder, board of directors or comparable meetings that affect the FS have been appropriately reflected therein.
 - b. About the existence of transactions with related parties, how such transactions have been accounted for and whether related parties have been properly disclosed.
 - c. About contingencies and commitments.
 - d. About plans to dispose of major assets or business segments.
 - e. Whether all financial information is recorded: Completely; Promptly; and After the necessary authorization.
 - f. Whether there have been any significant changes in the entity from the previous year (e.g., changes in ownership or changes in capital structure).
 - g. About the accounting policies and consider whether: They comply with the applicable AS; applied appropriately and consistently and, if not, consider whether disclosure has been made of any changes in the accounting policies.
5. **Obtain:**
 - a. An understanding of the entity’s business activities and the system for recording financial information and preparing FS.
 - b. The FS and discuss them with management.
 - c. Explanations from management for any unusual fluctuations or inconsistencies in the FS.
 - d. Trial balance and determine whether it agrees with the general ledger and the FS.
6. **Compare** the results shown in the current period FS with those shown in FS for comparable prior periods and, if available, with budgets and forecasts.
7. **Consider:**
 - a. The adequacy of disclosure in the FS and their suitability as to classification and presentation.
 - b. The effect of any unadjusted errors – individually and in aggregate. Bring the errors to the attention of management and determine how the unadjusted errors will influence the report on the review.
 - c. Obtaining a representation letter from management.
 - d. Results of previous audits including accounting adjustments required.

CONCLUSION & REPORTING

There should be clear written expression of negative assurance:

1. Title
2. Addressee
3. Opening or introductory paragraph including:
 - a. Identification of the financial statement on which the review had been performed; and
 - b. A statement of the responsibility of entity’s management & the responsibility of auditor
4. Scope paragraph, including -
 - a. A reference to this standard & to relevant laws or regulations
 - b. A statement that a review is limited primarily to inquiries and analytical procedures.
 - c. A statement that
 - ✚ An audit has not been performed
 - ✚ The procedures undertaken provide less assurance than an audit
 - ✚ An audit opinion is not expressed
5. Statement of negative assurance
6. Date of the report
7. Place
8. Auditor’s signature and membership number

DATE OF REPORT:

He shall

- ✚ Sign the review report as of the date review is completed and
- ✚ Date of review report by auditor should not be earlier than date of signing/approval by management.

CHANGING TERMS OF ENGAGEMENT

- ✚ If no Justification for changing the terms,
- ✚ Practitioner shouldn't agree to change,
- ✚ If not permitted to continue the original engagement.
- ✚ Then withdraw and consider whether any obligation to report these circumstances to other parties (BOD or Shareholders).

NEGATIVE ASSURANCE (IMP)

1. He shall state that –
 - ✚ **Nothing** has come to auditor's attention based on review
 - ✚ That causes him to **believe**
 - ✚ That financial statements do not give a true and fair view (or not presented)
 - ✚ In accordance with appropriate framework.
2. If matters come to auditor's attention that impair true and fair view, then describe those matters with quantification on financial statement and either
 - ✚ Express qualification of negative assurance, or
 - ✚ If effect is so material and pervasive that qualification is not adequate give an adverse statement.
3. If there is material scope limitation, describe the limitation and either
 - ✚ Expresses a qualification of negative assurance, or
 - ✚ When possible effect of limitation is so significant don't provide any assurance.

2. SRE 2410 REVIEW OF INTERIM FINANCIAL INFORMATION PERFORMED BY INDEPENDENT AUDITOR OF THE ENTITY

INTERIM FINANCIAL INFORMATION (IFI)

IFI is either a complete or condensed set of financial statements for a period shorter than entity's FY.

SRE 2410 IS APPLICABLE WHEN

- ✚ Independent auditor of the entity is also engaged to review the IFI.
- ✚ He is having understanding of entity and its environment and IC.
- ✚ Thus, he can review IFI with much ease.

GENERAL PRINCIPLES OF REVIEW OF IFI

He shall

- ✚ Comply with Code of Ethics issued by ICAI,
- ✚ Implement quality control procedures as per SQC and
- ✚ Maintain professional skepticism.

Objectives of This SRE

- ✚ Enable auditor to express a conclusion whether,
- ✚ On the basis of the review,
- ✚ Anything has come to auditor's attention,
- ✚ That causes auditor to believe,
- ✚ That IFI is not prepared, in all material respects, in accordance with applicable FRF.

AGREEING THE TERMS OF ENGAGEMENT

Terms of Engagement shall cover the following:

1. Objective of a review of IFI.

2. Scope of review.
3. Management's responsibility for:
 - + Interim Financial Information
 - + Establishing and maintaining effective Internal Control relevant to preparation of IFI.
 - + Making all financial records & related information available to auditor.
4. Management's agreement to provide WR to auditor to confirm representations made orally during review, as well as representations implicit in entity's records.
5. Anticipated form and content of report to be issued, including identity of addressee of report.
6. Management's agreement that where any document containing IFI indicates that IFI has been reviewed by entity's auditor, review report will also be included in document.

PROCEDURES FOR A REVIEW

1. Understanding the entity and Its environment
2. Inquiries, Analytical and Other Review Procedures
3. Collection of Evidences

1. Understanding the entity and Its environment:

- + He shall update understanding obtained during annual audits w.r.t. preparation of annual financial statements.
- + Identify types of potential material misstatements and consider likelihood of occurrence.
- + Perform inquiries, analytical & other review procedures.
- + Determine nature of review procedures required for components.

2. Inquiries, Analytical and Other Review Procedures:

- + Auditor shall make inquiries and perform Analytical and Other Review Procedures.
- + Ordinarily auditor is not required to perform inspection/observation/confirmation.
- + Direct external confirmations are also not necessary.

3. Collection of Evidences

- + Obtain evidence that the IFI agrees or reconciles with the underlying accounting records.
- + Examine whether management has identified all events up to the date of the review report that may require adjustment to or disclosure in the IFI.
- + Inquire about management's assessment of going concern.
- + When the auditor becomes aware of events or conditions casting significant doubt on the entity's ability to continue as a going concern, the auditor shall perform extended procedures.

EVALUATION OF MISSTATEMENTS

Evaluate, by exercising professional judgment, whether uncorrected misstatements are material to IFI. However, he is not required to obtain reasonable assurance that WI is free of material misstatements.

1. Representations from Management :

For following:

- a. Responsibility for internal control to prevent and detect fraud and error.
- b. IFI is prepared and presented in accordance with applicable FRF.
- c. Uncorrected misstatements are immaterial, both individually and in the aggregate, to IFI.
- d. It has disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to management affecting the entity.
- e. Results of its assessment of the risk of fraud.
- f. All known actual or possible non-compliance with laws and regulations affecting the IFI.
- g. All significant events that have occurred subsequent to the balance sheet date up to the date of the review report that may require adjustment to or disclosure in IFI.

2. Auditor's Responsibility for Accompanying Information:

- a. He shall read the other information accompanying the IFI to consider whether it is inconsistent with the IFI.
- b. If a matter comes to the auditor's attention that causes the auditor to believe that the other information is misstated, he shall discuss the matter with the entity's management.

REPORTING

1. Elements

- 1) An appropriate title
- 2) An addressee, as required by the circumstances of the engagement.
- 3) Identification of the IFI including title of each statement therein.
- 4) Management responsibility for preparation of IFI.
- 5) Statement for Auditor's Responsibility for expressing a conclusion on the IFI.
- 6) Statement that review of IFI was conducted in accordance with SRE 2410.
- 7) Statement that **review substantially less in scope than an audit**
- 8) Auditor's Conclusion.
- 9) The date of the report,
- 10) Place of signature.
- 11) Auditor's signature including his Membership number.
- 12) Firm registration number.

2. Departure from applicable FRF:

- ✚ If a matter has come to the auditor's attention
- ✚ that causes the auditor to believe that a material adjustment should have been made to the IFI
- ✚ so that it can comply with applicable FRF
- ✚ Then, express a qualified or adverse conclusion.

3. Limitation on Scope:

- ✚ If he is unable to complete review,
- ✚ Communicate the reason in writing to appropriate level of management/TCWG and
- ✚ Consider whether it is appropriate to issue a report.