

Auditing Standard

AUS 902
(July 2002)

Review of Financial Reports

Prepared by the **Auditing & Assurance Standards Board** of the
Australian Accounting Research Foundation



Issued by the
**Australian Accounting Research
Foundation** on behalf of
**CPA Australia and The Institute of
Chartered Accountants in Australia**

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Auditing Standards contain the basic principles and essential procedures identified in bold-type (black lettering) which are mandatory, together with related guidance. For further information about the responsibility of members for compliance with AUSs refer Miscellaneous Professional Statement APS 1.1 "Conformity with Auditing Standards".

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ISSN 1324-4183

AUDITING STANDARD
AUS 902 “REVIEW OF FINANCIAL REPORTS”

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Introduction

- .01 The purpose of this Auditing Standard (AUS) is to establish standards and provide guidance on the auditor’s¹ professional responsibilities when an engagement to review a financial report is undertaken, and on the form and content of the report that the auditor issues in connection with such a review.
- .02 This AUS is directed towards the review of financial reports. However it is to be applied to the extent practicable to engagements to review financial or other 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). This AUS is to be read in conjunction with AUS 106 “Explanatory Framework for Standards on Audit and Audit Related Services”.

Objective of a Review Engagement

- .03 *The objective of a review of a financial report is to enable an auditor to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to the auditor’s attention that causes the auditor to believe that the financial report is not prepared, in all material respects, in accordance with an identified financial reporting framework* (negative assurance).

General Principles of a Review Engagement

- .04 *The auditor should comply with the ethical requirements CPA Australia and The Institute of Chartered Accountants in Australia.* Ethical principles governing the auditor’s professional responsibilities include:
- (a) independence;
 - (b) integrity;
 - (c) objectivity;
 - (d) professional competence and due care;

¹ The term “auditor” is used throughout this AUS. Such reference is not intended to imply that a person performing a review need necessarily be the auditor of the entity nor that the service being provided is an audit. The term is used to indicate that the work is required to be performed and the report prepared by persons who have adequate training, experience and competence in auditing.

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- (e) confidentiality;
 - (f) professional behaviour; and
 - (g) technical standards.
- .05 ***The auditor should conduct a review in accordance with Australian Auditing Standards applicable to review engagements.*** AUS’s are mostly written in the context of audits. However they are to be applied and adapted as necessary to review engagements.
- .06 ***The auditor should plan and perform the review with an attitude of professional scepticism, recognising that circumstances may exist which cause the financial report to be materially misstated.***
- .07 ***For the purpose of expressing negative assurance in the review report, the auditor should obtain sufficient appropriate evidence primarily through inquiry and analytical procedures to be able to draw conclusions.***

Scope of a Review

- .08 The term “scope of a review” refers to the review procedures deemed necessary in the circumstances to achieve the objective of the review. ***The procedures required to conduct a review of a financial report should be determined by the auditor having regard to applicable AUS’s, legislation, regulation and, where appropriate the terms of the review engagement and reporting requirements.***

Moderate Assurance

- .09 A review engagement provides a moderate level of assurance that the information subject to review is free of material misstatement. The report provides this assurance in the form of negative assurance.
- .10 While reviews involve the application of audit skills and techniques, they do not usually involve many of the procedures ordinarily performed during an audit. In an audit, because the auditor’s objective is to provide a high, but not absolute, level of assurance on the reliability of the financial report, the auditor will use more extensive audit procedures than in a review.
- .11 Reviews involve limited procedures comprising inquiries of company personnel and analytical procedures applied to financial or non-financial information. Reviews of financial reports do not ordinarily involve:

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- (a) a study and evaluation of internal accounting controls;
- (b) tests of accounting records; and
- (c) tests of responses to inquiries by obtaining corroborating evidence through:
 - (i) inspection;
 - (ii) observation; and
 - (iii) confirmation.

The auditor may, however, decide that additional information is required from management and/or additional procedures are necessary to obtain sufficient appropriate evidence on aspects of the financial report subject to a review (for example when the auditor has doubts as to the completeness and accuracy of the financial report). The acquisition of information in this way does not convert the engagement to an audit engagement. A review engagement may bring to the auditor’s attention significant matters affecting the financial report, but it provides less assurance than would be provided by an audit that the auditor will become aware of all significant matters.

- .12 Although the procedures to be performed in a review will be less extensive than those necessary in an audit, the scope of the auditor’s work remains the responsibility of the auditor and not that of the client. It is necessary for the auditor to consider, for example, whether any restrictions in the scope of the auditor’s work imposed by the client are of such significance that a moderate level of assurance could not be provided. In such cases, the auditor would withdraw from the engagement and consider whether there is an obligation to report the circumstances necessitating the withdrawal to third parties.

Terms of the Engagement

- .13 ***The auditor and the entity should agree on the terms of the engagement.*** The agreed terms would ordinarily be recorded in an engagement letter or other suitable form.
- .14 It is in the interest of both the entity and the auditor that the auditor send an engagement letter, preferably before the commencement of the engagement, to help in avoiding misunderstandings with respect to the engagement. The engagement letter documents and confirms the auditor’s acceptance of the appointment, the objectives and

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scope of the engagement, the extent of the auditor’s responsibilities to the entity and the form of any reports.

- .15 Matters that would be included in the engagement letter include:
- (a) the objective of the service being performed;
 - (b) management’s responsibility for the financial report;
 - (c) the scope of the review, including a statement that the review has been performed in accordance with Australian Auditing Standards applicable to review engagements;
 - (d) unrestricted access to whatever records, documentation and other information requested in connection with the review;
 - (e) a sample of the report expected to be rendered;
 - (f) the fact that the engagement cannot be relied upon to disclose fraud, error or non-compliance with laws and regulations that may exist; and
 - (g) a statement that an audit is not being performed and that an audit opinion will not be expressed. To emphasise this point and to avoid confusion, the auditor may also consider pointing out that a review engagement will not satisfy any statutory or third party requirements for an audit.

An example of an engagement letter for a review of a financial report appears in Appendix 1.

Planning

- .16 *The auditor should plan the work so that the review will be performed in an effective manner.*
- .17 *In planning a review, the auditor should obtain or update a knowledge of the business including consideration of the entity’s organisation, accounting systems, operating characteristics and the nature of its assets, liabilities, equity, revenues and expenses.*
- .18 The auditor needs to possess an understanding of such matters relevant to the financial report, for example a knowledge of the entity’s production and distribution methods, product lines, operating locations and related parties. The auditor requires this understanding to be able to make relevant inquiries and to design

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appropriate procedures, as well as to assess responses and other information obtained.

- .19 The knowledge and understanding of the entity required would have been acquired by an auditor who has carried out audits or reviews of the entity’s financial reports in recent previous periods. Where a review engagement is undertaken by an auditor who does not have the knowledge acquired from recent previous periods, that auditor needs to be satisfied that sufficient knowledge and understanding can be obtained to meet the requirements of AUS 304 “Knowledge of the Business”. The auditor would consider the need to increase the extent and/or broaden the nature of the procedures to be performed during the review engagement. In the case of an auditor who has knowledge acquired from recent previous periods, procedures would be performed to update that knowledge and identify significant changes.
- .20 The knowledge of the business would include an understanding of the internal control structure as it relates to the preparation of the financial report. This helps to ensure that appropriate attention is given to the impact of the internal control structure on the risk of occurrence of material misstatements.

Work Performed by Assistants

- .21 *When work is delegated to assistants, the auditor should carefully direct, supervise and review the work delegated.*

Work Performed by Another Auditor

- .22 *When the auditor uses the work of another auditor, the auditor should determine how the work of the other auditor will affect the review engagement.*

Work Performed by an Expert

- .23 *When using the work performed by an expert, the auditor should obtain sufficient appropriate evidence that such work is adequate for the purposes of the review engagement.*

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Documentation

- .24 ***The auditor should document matters which are important in providing evidence to support the review report, and evidence that the review was carried out in accordance with Australian Auditing Standards applicable to review engagements.***

Procedures and Evidence

- .25 ***The auditor should apply judgement in determining the specific nature, timing and extent of review procedures.*** The auditor will be guided by such matters as:
- (a) any knowledge acquired by carrying out audits or reviews of the financial report for prior periods;
 - (b) the auditor’s knowledge of the business including knowledge of the accounting principles and business practices of the industry in which the entity operates;
 - (c) the entity’s accounting systems;
 - (d) the extent to which a particular item is affected by management judgement; and
 - (e) the materiality of transactions and account balances.
- .26 ***The auditor should apply the same materiality considerations as would be applied if an audit opinion on the financial report is being given.*** Although there is a greater risk that misstatements will not be detected in a review than in an audit, the judgement as to what is material is made by reference to the information on which the auditor is reporting and the needs of those relying on that information, not to the level of assurance provided.
- .27 Procedures for the review of financial reports will ordinarily include:
- (a) Obtaining an understanding of the entity’s business and the industry in which it operates.
 - (b) Inquiries concerning the entity’s accounting principles and practices.
 - (c) Inquiries concerning the entity’s procedures for recording, classifying and summarising transactions, accumulating

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information for disclosure in the financial report and preparing the financial report.

- (d) Inquiries concerning all material assertions in the financial report.
- (e) Analytical procedures designed to identify relationships and individual items that appear unusual. Such procedures would include:
 - (i) comparison of the financial report with reports for prior periods;
 - (ii) comparison of the financial report with anticipated results and financial position; and
 - (iii) study of the relationships of the elements of the financial report that would be expected to conform to a predictable pattern based on the entity’s experience or industry norm.

In applying these procedures, the auditor would consider the types of matters that required accounting adjustments in prior periods.

- (f) Inquiries concerning actions taken at meetings of shareholders, the board of directors, committees of the board of directors and other meetings that may affect the financial report.
- (g) Reading the financial report to consider, on the basis of information coming to the auditor’s attention, whether the financial report appears to conform with the basis of accounting indicated.
- (h) Obtaining reports from other auditors, if any, and if considered necessary, who have been engaged to audit or review the financial report of components of the entity.
- (i) Inquiries of persons having responsibility for financial and accounting matters concerning, for example:
 - (i) whether all transactions have been recorded;
 - (ii) whether the financial report has been prepared in accordance with the basis of accounting indicated;

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- (iii) changes in the entity’s business activities and accounting principles and practices;
- (iv) matters as to which questions have arisen in the course of applying the foregoing procedures; and
- (v) obtaining written representations from management when considered appropriate.

Appendix 2 provides an illustrative list of procedures which are often used. The list is not exhaustive, nor is it intended that all the procedures suggested apply to every review engagement.

- .28 ***The auditor should inquire about events subsequent to the date of the financial report that may require adjustment of or disclosure in the financial report.*** The auditor does not have any responsibility to perform any other procedures to identify events occurring after the date of the review report.
- .29 ***If the auditor has reason to believe that the information subject to review may be materially misstated, the auditor should seek additional information from the management of the entity and/or carry out additional or more extensive procedures to obtain sufficient appropriate evidence to be able to express negative assurance, or to confirm that a qualification is required.***

Conclusions and Reporting

- .30 ***The review report should contain a clear written expression of negative assurance. The auditor should review and assess the conclusions drawn from the review evidence obtained as the basis for the expression of negative assurance.***
- .31 ***Based on the work performed, the auditor should assess whether any information obtained during the review indicates that the financial report is not presented fairly in accordance with the identified financial reporting framework stated.*** If so, the auditor would request that the necessary revisions be made in the financial report.
- .32 The report on a review of a financial report describes the scope of the engagement to enable the user to understand the nature of the work performed, and makes it clear that an audit was not performed and, therefore, that an audit opinion is not expressed.

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- .33 *The report on a review of a financial report should contain the following basic elements, ordinarily in the following layout:*
- (a) a title (Review Report) including the word “independent”;*
 - (b) the addressee (ordinarily the client who engaged the auditor to perform the assignment);*
 - (c) a section describing the review scope, which for a financial report review includes:*
 - (i) identification of the financial report on which the review has been performed, including the name of the entity and the date and period covered by the financial report;*
 - (ii) a statement that the financial report is the responsibility of the governing body and that the responsibility of the auditor is to perform a review of the financial report;*
 - (iii) a statement, where appropriate, that the financial report has been prepared for a particular purpose and user(s), and any express restriction on the distribution of the review report or on those entitled to rely on it;*
 - (iv) an appropriate description of the work undertaken by reference to Australian Auditing Standards applicable to review engagements, and a statement that a review is limited primarily to inquiries and analytical procedures; and*
 - (v) in rare and exceptional circumstances, when a departure from a basic principle or essential procedure may be necessary, as indicated in Miscellaneous Professional Statement APS 1.1 “Conformity with Auditing Standards”, the statement required under paragraph (c)(iv) should provide details of the particular basic principle(s) or essential procedure(s) that has been departed from together with the justification for the departure. As indicated in APS 1.1, this statement is not required where the basic principle or essential procedure relates to a matter that is not material or where the Auditing Standard contains an exceptional circumstance*

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departure provision in the black-lettering. (For example, refer AUS 504.02 “Confirmation of Receivables”.);

- (vi) *a statement that an audit has not been performed, that the procedures undertaken provide less assurance than an audit, and that an audit opinion is not expressed;*
- (d) *an expression of negative assurance;*
- (e) *the date of the report;*
- (f) *the auditor’s address; and*
- (g) *the auditor’s signature.*

Appendices 3 and 4 contain examples of review reports.

.34 **The review report should:**

- (a) *state that nothing has come to the auditor’s attention based on the review that causes the auditor to believe that the financial report is not presented fairly in accordance with the identified financial reporting framework (negative assurance); or*
- (b) *if matters have come to the auditor’s attention, include in the review report a separate section headed “Qualification” which describes the matters that were not presented fairly in accordance with the identified financial reporting framework, including the quantification of the effects of the matters or, if this is not readily determinable, a statement to that effect, and under the heading “Qualified Review Statement” either:*
 - (i) *an “except for” statement of negative assurance; or*
 - (ii) *an adverse statement that the financial report is not presented fairly in accordance with the identified financial reporting framework when the effect of the matter is of such a magnitude, or is so pervasive or fundamental that the financial report taken as a whole is, in the auditor’s opinion, misleading or of little use to the addressee of the auditor’s report;*

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- (c) *if there is a limitation in the scope of the engagement that, in the auditor’s opinion prevents the provision of moderate assurance, include in the review report a separate section headed “Qualification” which describes the limitation and under the heading “Qualified Review Statement” a qualified statement of negative assurance that is qualified as to the effects of such adjustments, if any, as might have been required had the limitation not existed. There may be circumstances when the possible effects of a limitation are so pervasive or fundamental that the auditor will be unable to provide any assurance;*
- (d) *an emphasis of matter section, suitably headed and placed immediately after the Statement section, in the appropriate circumstances as described in AUS 702 (that is additional disclosure, inherent uncertainty, inconsistent other information and subsequent events that result in a new auditor’s report or a revised financial report). The review report should not, except in these circumstances, draw attention to or emphasise any matter which has, in the auditor’s opinion, been adequately dealt with in the financial report.*
- .35 *The review reports should be dated as of the date the auditor signs that report. The date should be no earlier than the date on which the financial report is signed or approved by the governing body.* Dating of the review report informs the user that the auditor considered the effects on the financial report and on the review report of those transactions and other events that occurred up to the date cited and of which the auditor became aware.

Operative Date

- .36 This AUS, which incorporates amendments made by AUS/AGS Omnibus 3 “Miscellaneous Amendments to AUSs and AGSs”, is operative from July 2002. This version of AUS 902 supersedes AUS 902 “Review of Financial Reports”, as revised in February 1999.

Compatibility with International Standards on Auditing

- .37 Except for the following matter, the basic principles and essential procedures of this AUS and of International Standard on Auditing ISA 910, Engagements to Review Financial Statements, are consistent in all material respects.

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ISA 910 requires the auditor to comply with the ethical requirements of the International Federation of Accountants (IFAC). AUS 902 requires the auditor to comply with the ethical requirements of CPA Australia and The Institute of Chartered Accountants in Australia (the Institute). Unlike the IFAC ethics which incorporate a requirement covering supervision of staff, CPA Australia and the Institute ethics do not deal with this issue. Therefore, to ensure consistency between AUS 902 and ISA 910, the Auditing & Assurance Standards Board has included in this AUS the basic principle and essential procedure in AUS 902.21.

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APPENDIX 1

EXAMPLE OF AN ENGAGEMENT LETTER FOR A REVIEW OF A COMPANY FINANCIAL REPORT

The following letter is for use as a guide in conjunction with the consideration outlined in AUS 902.15 and would be varied according to individual requirements and circumstances.

To [the governing body or the appropriate representative of management]:

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will review the balance sheet of XYZ Company as of 31 December, 19XX, and the related profit and loss statement, statement of cash flows and accompanying notes for the year then ended, in accordance with Australian Auditing Standards applicable to review engagements. Information acquired by us in the course of our review is subject to strict confidentiality requirements and will not be disclosed by us to other parties except as required or allowed for by law or professional standards, or with your express consent. We will not perform an audit of that financial report and, accordingly, we will not express an audit opinion on it. We advise that this review engagement will not satisfy any statutory or third party requirement for an audit. Accordingly, we expect to report on the financial report as follows:

(see Appendix 3)

Responsibility for the financial report, including adequate disclosure, is that of the management of the company. This includes the maintenance of adequate accounting records and internal controls and the selection and application of accounting policies. (As part of our review process, we may request written representations from management concerning assertions made in connection with the review.)¹

This letter will be effective for future years unless it is terminated, amended or superseded (if applicable).

¹ This sentence would be used at the discretion of the auditor.

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Our engagement cannot be relied upon to disclose fraud, error or non-compliance with laws and regulations that may exist. However, we will inform you of any such matters that come to our attention.

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our review of the financial report.

Yours faithfully,

(signed)

.....
Name and Title
Date

Acknowledged on behalf of
..... (entity) by

(signed)

.....
Name and Title
Date

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APPENDIX 2

ILLUSTRATIVE DETAILED PROCEDURES THAT MAY BE PERFORMED IN AN ENGAGEMENT TO REVIEW A FINANCIAL REPORT

The inquiry and analytical procedures carried out in a review of a financial report are determined by the auditor’s judgement. The procedures listed below are for illustrative purposes only. It is not intended that all the procedures suggested apply to every review engagement. This Appendix is not intended to serve as a program or checklist in the conduct of a review.

General

- .01 Discuss terms and scope of the engagement with the client and the engagement team.
- .02 Prepare an engagement letter setting forth the terms and scope of the engagement.
- .03 Obtain an understanding of the entity’s business and the system for recording financial information and preparing the financial report.
- .04 Inquire whether all financial information is recorded:
 - (a) completely;
 - (b) accurately;
 - (c) promptly; and
 - (d) after the necessary authorisation.
- .05 Obtain trial balance and determine whether it agrees with the general ledger and financial report.
- .06 Consider the results of previous audits and review engagements, including accounting adjustments required.
- .07 Inquire whether there have been any significant changes in the entity from the previous year (for example changes in ownership or changes in capital structure).
- .08 Inquire about the accounting policies and consider whether they:
 - (a) comply with Accounting Standards and UIG Consensus Views;

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- (b) have been applied appropriately; and
 - (c) have been applied consistently and, if not, consider whether disclosure has been made of any changes in the accounting policies.
- .09 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.
- .10 Inquire if actions taken at shareholder, board of directors, audit committee or comparable meetings that affect the financial report have been appropriately reflected therein.
- .11 Inquire about the existence of transactions with related parties, how such transactions have been accounted for and whether related parties have been properly disclosed.
- .12 Inquire about contingencies and commitments.
- .13 Inquire about plans to dispose of major assets or business segments.
- .14 Obtain the financial report and discuss it with management.
- .15 Consider the adequacy of disclosure in the financial report and the suitability as to classification and presentation.
- .16 Compare the results shown in the current period financial report with those shown in financial reports for comparable prior periods and, if available, with budgets and forecasts.
- .17 Obtain explanations from management for any unusual fluctuations or inconsistencies in the financial report.
- .18 Consider 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.
- .19 Consider obtaining a representation letter from management.
- Cash*
- .20 Obtain the bank reconciliations. Inquire about any old or unusual reconciling items with client personnel.

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- .21 Inquire about transfers between cash accounts for the period before and after the review date.
- .22 Inquire whether there are any restrictions on cash accounts.

Receivables

- .23 Inquire about the accounting policies for initially recording trade receivables and determine whether any allowances are given on such transactions.
- .24 Obtain a schedule of receivables and determine whether the total agrees with the trial balance.
- .25 Obtain and consider explanations of significant variations in account balances from previous periods or from those anticipated.
- .26 Obtain an aged analysis of the trade receivables. Inquire about the reason for unusually large accounts, credit balances on accounts or any other unusual balances and inquire about the collectibility of receivables.
- .27 Discuss with management the classification of receivables, including non-current balances, net credit balances and amounts due from shareholders, directors and other related parties in the financial report.
- .28 Inquire about the method for identifying “slow payment” accounts and setting allowances for doubtful accounts and consider it for reasonableness.
- .29 Inquire whether receivables have been pledged, factored or discounted.
- .30 Inquire about procedures applied to ensure that a proper cut-off of sales transactions and sales returns has been achieved.
- .31 Inquire whether accounts represent goods shipped on consignment and, if so, whether adjustments have been made to reverse these transactions and include the goods in inventory.
- .32 Inquire whether any large credits relating to revenue recorded have been issued after the balance sheet date and whether provision has been made for such amounts.
- .33 Inquire if known foreign exchange receivables are adequately hedged.

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Inventories

- .34 Obtain the inventory list and determine whether:
 - (a) the total agrees with the balance in the trial balance; and
 - (b) the list is based on a physical count of inventory.
- .35 Inquire about the method for counting inventory.
- .36 Where a physical count was not carried out on the balance sheet date, inquire whether:
 - (a) a perpetual inventory system is used and whether periodic comparisons are made with actual quantities on hand; and
 - (b) an integrated cost system is used and whether it has produced reliable information in the past.
- .37 Discuss adjustments made resulting from the last physical inventory count.
- .38 Inquire about procedures applied to control cut-off and any inventory movements.
- .39 Inquire about the basis used in valuing each category of the inventory and, in particular, regarding the elimination of internal profits. Inquire whether inventory is valued at the lower of cost and net realisable value.
- .40 Consider the consistency with which inventory valuation methods have been applied, including factors such as material, labour and overhead.
- .41 Compare amounts of major inventory categories with those of prior periods and with those anticipated for the current period. Inquire about major fluctuations and differences.
- .42 Compare inventory turnover with that in previous periods.
- .43 Inquire about the method used for identifying slow moving and obsolete inventory and whether such inventory has been accounted for at net realisable value.
- .44 Inquire whether any of the inventory has been consigned to the entity and, if so, whether adjustments have been made to exclude such goods from inventory.

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- .45 Inquire whether any inventory is pledged, stored at other locations or on consignment to others and consider whether such transactions have been accounted for appropriately.

Investments (including associated companies and marketable securities)

- .46 Obtain a schedule of the investments at the balance date and determine whether it agrees with the trial balance.
- .47 Inquire about the accounting policy applied to investments.
- .48 Inquire of management about the carrying values of investments. Consider whether there are any realisation problems.
- .49 Consider whether there has been proper accounting for gains and losses and investment income.
- .50 Inquire about the classification of current and non-current investments.

Property and Depreciation

- .51 Obtain a schedule of the property indicating the cost and accumulated depreciation and determine whether it agrees with the trial balance.
- .52 Inquire about the accounting policy applied regarding the provision for depreciation and distinguishing between capital and maintenance items. Consider whether the property has suffered a material, permanent impairment in value.
- .53 Discuss with management the additions and deletions to property accounts and accounting for gains and losses on sales or retirements. Inquire whether all such transactions have been accounted for.
- .54 Inquire about the consistency with which the depreciation method and rates have been applied and compare depreciation provisions with prior periods.
- .55 Inquire whether there are any liens on the property.
- .56 Discuss whether lease agreements have been properly reflected in the financial report in conformity with accounting standards and UIG Consensus Views.
- .57 Discuss the method of financing acquisitions of property such as the use of options, sale and leaseback and joint ventures.

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.58 Discuss the policy relating to capitalisation of interest.

Prepaid Expenses, Intangibles and Other Assets

.59 Obtain schedules identifying the nature of these accounts and discuss with management the recoverability thereof.

.60 Inquire about the basis for recording these accounts and the amortisation methods used.

.61 Compare balances of related expense accounts with those of prior periods and discuss significant variations with management.

.62 Discuss the classification between non-current and current accounts with management.

Loans Payable

.63 Obtain from management a schedule of loans payable and determine whether the total agrees with the trial balance.

.64 Inquire whether there are any loans where management has not complied with the provisions of the loan agreement and, if so, inquire as to management's actions and whether appropriate adjustments have been made in the financial report.

.65 Consider the reasonableness of interest expense in relation to loan balances.

.66 Inquire whether loans payable are secured.

.67 Inquire whether loans payable have been classified between non-current and current.

.68 Inquire as to whether foreign currency loans are adequately hedged.

.69 Inquire as to arrangements for the continuing provision of finance facilities.

Trade Payables

.70 Inquire about the accounting policies for initially recording trade payables and whether the entity is entitled to any allowances given on such transactions.

.71 Obtain and consider explanations of significant variations in account balances from previous periods or from those anticipated.

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- .72 Obtain a schedule of trade payables and determine whether the total agrees with the trial balance.
- .73 Inquire whether balances are reconciled with the creditors’ statements and compare with prior period balances. Compare turnover with prior periods.
- .74 Consider whether there could be material unrecorded liabilities.
- .75 Inquire whether payables to shareholders, directors and other related parties are separately disclosed.

Accrued and Contingent Liabilities

- .76 Obtain a schedule of the accrued liabilities and determine whether the total agrees with the trial balance.
- .77 Compare major balances of related expense accounts with similar accounts for prior periods.
- .78 Inquire about approvals for such accruals, terms of payment, compliance with terms, collateral and classification.
- .79 Inquire about the method for determining accrued liabilities.
- .80 Inquire as to the nature of amounts included in contingent liabilities and commitments.
- .81 Inquire whether any actual or contingent liabilities exist which have not been recorded in the accounts. If so, discuss with management whether provisions need to be made in the accounts or whether disclosure needs to be made in the notes to the financial report.

Income and Other Taxes

- .82 Inquire from management if there were any events, including disputes with taxation authorities, which could have a significant effect on the taxes payable by the entity.
- .83 Consider the tax expense in relation to the entity’s income for the period.
- .84 Inquire from management as to the adequacy of the recorded deferred and current tax liabilities including provisions in respect of prior periods.

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Subsequent Events

- .85 Obtain from management the latest interim financial report and compare it with the financial report being reviewed or with those for comparable periods from the preceding period.
- .86 Inquire about events after the balance date that would have a material effect on the financial report under review and, in particular, inquire whether:
- (a) any substantial commitments or uncertainties have arisen subsequent to the balance date;
 - (b) any significant changes in the share capital, long-term debt or working capital have occurred up to the date of inquiry;
 - (c) any unusual adjustments have been made during the period between the balance date and the date of inquiry; and
 - (d) cash projections support the continuing solvency of the entity.
- Consider the need for adjustments or disclosure in the financial report.
- .87 Obtain and read the minutes of meetings of shareholders, directors and appropriate committees subsequent to the balance date.

Litigation

- .88 Inquire from management whether the entity is the subject of any legal actions — threatened, pending or in process. Consider the effect thereof on the financial report.

Equity

- .89 Obtain and consider a schedule of the transactions in the equity accounts, including new issues, redemptions, franked and unfranked dividends, options and equity transactions involving related parties.
- .90 Inquire whether there are any restrictions on retained earnings or other equity accounts.

Operations (revenues and expenses)

- .91 Inquire about the accounting policies applied for the recognition and recording of revenues and expenses.

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- .92 Compare revenues, expenses and operating results with those of prior periods and those expected for the current period. Discuss significant variations with management.
- .93 Discuss whether the recognition of major revenues and expenses have taken place in the appropriate periods.
- .94 Consider extraordinary and abnormal items.
- .95 Consider and discuss with management the relationship between related items in the profit and loss account and assess the reasonableness thereof in the context of similar relationships for prior periods, current period budgets and other information available to the auditor.
- .96 Consider and discuss with management the relationship between the profit and loss account and the balance sheet and assess the reasonableness thereof in the context of similar relationships for prior periods, the current period’s budget and other information available to the auditor.

Journals

- .97 Consider unusual journal entries and those of material amounts and discuss with management.

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APPENDIX 3

EXAMPLE OF AN UNQUALIFIED REVIEW REPORT

INDEPENDENT REVIEW REPORT

To

Scope

We have reviewed the [identify report(s)] of XYZ for the [period] ended [date]. The [members of the governing body] are responsible for the [identify report]. We have performed the review of the [identify report] in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the [identify report] is not presented fairly in accordance with [identify reporting framework stated in the financial report].

[The [identify report] has been prepared for distribution [identify report user] for the purpose of [identify purpose]. We disclaim any assumption of responsibility for any reliance on this review report or on the [identify financial report] to which it relates to any person other than [identify report user].]²

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the [identify report] of XYZ for the [period] ended [date] does not present fairly the [identify information] for the [period] then ended in accordance with [identify reporting framework stated in the financial report].

Date
Address

Signature

² Include where appropriate, for example, where the report is a special purpose financial report.

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APPENDIX 4

EXAMPLES OF QUALIFIED REVIEW REPORTS

Example 1: Exception Report for a Departure from an Accounting Standard where the Financial Reporting Framework requires Application of Australian Accounting Standards

INDEPENDENT REVIEW REPORT

To

Scope

We have reviewed the [identify report(s)] of XYZ for the [period] ended [date]. The [members of the governing body] are responsible for the [identify report]. We have performed the review of the [identify report] in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the [identify report] is not presented fairly in accordance with [identify reporting framework stated in the financial report].

[The [identify report] has been prepared for distribution [identify report user] for the purpose of [identify purpose]. We disclaim any assumption of responsibility for any reliance on this review report or on the [identify financial report] to which it relates to any person other than [identify report user].³

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Qualification

As a result of our review we noted that inventory has been stated at an amount in excess of its net realisable value. This is a departure from Australian Accounting Standard AAS 2 “Measurement and Presentation of Inventories in the Context of the Historical Cost System”. Management has

³ Include where appropriate, for example where the report is a special purpose financial report.

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provided us with a computation, which we have reviewed, which shows that inventory, if stated at lower of cost and net realisable value, would have been decreased by \$X, and operating profit before income tax and shareholders' equity would have been decreased by \$Y.

Qualified Review Statement

Based on our review, which is not an audit, except for the effects of the overstatement of inventory described in the previous paragraph, nothing has come to our attention that causes us to believe that the financial report of XYZ for the [period] ended [date] does not present fairly the [identify information] for the [period] then ended in accordance with [identify reporting framework stated in the financial report].

Date
Address

Signature

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Example 2: Adverse Report for a Departure from an Accounting Standard where the Financial Reporting Framework requires Application of Australian Accounting Standards

INDEPENDENT REVIEW REPORT

To

Scope

We have reviewed the [identify report(s)] of XYZ for the [period] ended [date]. The [members of the governing body] are responsible for the [identify report]. We have performed the review of the [identify report] in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the [identify report] is not presented fairly in accordance with [identify reporting framework stated in the financial report].

[The [identify report] has been prepared for distribution [identify report user] for the purpose of [identify purpose]. We disclaim any assumption of responsibility for any reliance on this review report or on the [identify financial report] to which it relates to any person other than [identify report user].⁴

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Qualification

As noted in Note X, this financial report does not reflect the consolidation of the financial reports of subsidiary companies, the investment in which is accounted for on a cost basis. Australian Accounting Standard AAS 24 “Consolidated Financial Reports” requires that the financial reports of the subsidiaries be consolidated. Due to the unavailability in an appropriate form of information from the subsidiary companies, we are unable to provide the quantified effect on the financial report.

⁴ Include where appropriate, for example where the report is a special purpose financial report.

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Qualified Review Statement

Because of the pervasive effect on the financial report of the matter discussed in the preceding paragraph, the accompanying financial report does not present fairly the [identify information] in accordance with [identify reporting framework stated in the financial report].

Date
Address

Signature