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Explanatory Guide
Procedures that may be Considered when Performing a Review Engagement under ASRE 2400

Issued by the **Auditing and Assurance Standards Board**

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EXPLANATORY GUIDE

Procedures that may be Considered when Performing a Review Engagement under ASRE 2400

Purpose

1. The purpose of this Explanatory Guide (EG) is to provide information to assurance practitioners who perform review engagements under AUASB standard ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is not the Auditor of the Entity* (issued 28 March 2013).

2. This EG does not, in any way, absolve assurance practitioners from compliance with the requirements of ASRE 2400 when performing a review under that standard. This guide is simply a list of procedures and questions that the assurance practitioner may find helpful when planning and performing a review of historical financial information. The procedures and questions contained in this EG are not presented as suggestions nor should they serve as a program or checklist.

Introduction

3. The International Auditing and Assurance Standards Board (IAASB) undertook an extensive revision of their review standard ISRE 2400 *Engagements to Review Historical Financial Statements* and approved issuance of the revised standard in June 2012.

4. In accordance with its principles of convergence, the Auditing and Assurance Standards Board (AUASB) determined that extant ASRE 2400 should be replaced with an Australian equivalent of the revised ISRE 2400. Accordingly, the revised ASRE 2400 was issued in March 2013 and is operative for financial reporting periods commencing on or after 1 July 2013. Early adoption is permitted.

5. The information in this EG emanates from the AUASB standard ASRE 2400 (issued 21 August 2008).

Analytical Procedures

6. The analytical procedures carried out in a review of a financial report are determined by the assurance practitioner exercising professional judgement. The procedures described below are for illustrative purposes only. It is not intended that all the analytical procedures described apply to every review engagement.

Examples of Analytical Procedures

7. Examples of analytical procedures the assurance practitioner may consider when performing a review of a financial report include the following:

    (a) Comparing the financial report with the financial report of the immediately preceding period, with the financial report of the corresponding period of the preceding financial year, with the financial report that was expected by management for the current period, and with the most recent audited annual financial report.

    (b) Comparing the current financial report with anticipated results, such as budgets or forecasts. For example, comparing tax balances and the relationship between the provision for income taxes to pre-tax income in the current financial report with corresponding information in:

        (i) budgets, using expected rates; and

(ii) financial information for prior periods.

(c) Comparing the current financial report with relevant non-financial information.

(d) Comparing the recorded amounts, or ratios developed from recorded amounts, to expectations developed by the assurance practitioner. The assurance practitioner develops such expectations by identifying and applying relationships that reasonably are expected to exist based on the assurance practitioner's understanding of the entity and of the industry in which the entity operates.

(e) Comparing ratios and indicators for the current period with those of entities in the same industry.

(f) Comparing relationships among elements in the current financial report with corresponding relationships in the financial report of prior periods, for example, expense by type as a percentage of revenue, assets by type as a percentage of total assets, and percentage of change in revenue to percentage of change in receivables.

(g) Comparing disaggregated data. The following are examples of how data may be disaggregated:

(i) by period, for example, revenue or expense items disaggregated into quarterly, monthly, or weekly amounts;

(ii) by product line or source of revenue;

(iii) by location, for example by component;

(iv) by attributes of the transaction, for example, revenue generated by designers, architects, or craftsmen; and

(v) by several attributes of the transaction, for example, revenue by product and month.

Detailed Procedures

8. The detailed procedures carried out in a review engagement are determined by the assurance practitioner exercising professional judgement. The procedures described below are for illustrative purposes only and may be considered by the assurance practitioner, who is presumed to have obtained an understanding of the entity and its environment, including internal control relative to the preparation of the financial report. It is not intended that all the procedures suggested apply to every review engagement.

Examples of Detailed Procedures

General

9. Discuss terms and scope of the engagement with the engagement team.

10. Enquire whether all financial information is recorded:

(a) completely;

(b) promptly; and

(c) after the necessary authorisation.

11. Enquire about the accounting policies and consider whether:

(a) they comply with the applicable financial reporting framework;

(b) they have been applied appropriately; and

(c) they have been applied consistently and, if not, consider whether disclosure has been made of any changes in the accounting policies.

12. Enquire about the policies and procedures to assess impairment of assets and any consequential estimation of recoverable amount.

13. Enquire about the policies and procedures to determine the fair value of assets and liabilities.

14. Enquire if actions taken at meetings of shareholders or those charged with governance which affect the financial report have been appropriately reflected therein.

15. Enquire about plans to dispose of major assets or business/geographical segments.

16. Obtain the financial report and discuss it with management and those charged with governance.

17. Consider the adequacy, classification and presentation of disclosures in the financial report.

18. Compare the outcomes shown in the current period financial report with those shown in financial reports for comparable prior periods and, if available, with the relevant budgets and forecasts.

19. Obtain explanations from management for any unusual fluctuations or inconsistencies in the financial report.

Cash

20. Obtain the bank reconciliations. Enquire about any old or unusual reconciling items.

21. Enquire about transfers between cash accounts for the period immediately before and after the review date.

22. Enquire whether there are any restrictions on cash accounts.

Receivables

23. Enquire about the accounting policies for initially recording trade receivables and determine whether any allowances for doubtful debts are made 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. Enquire about the reason for unusually large accounts, credit balances on accounts or any other unusual balances and enquire about the collectability of aged receivables.

27. Discuss with management the classification of receivables, including non-current balances, net credit balances and amounts due from shareholders, those charged with governance, and other related parties in the financial report.

28. Enquire about the methods for identifying and calculating the impairment of assets and consider them for reasonableness.

29. Enquire whether receivables have been pledged, factored or discounted.

30. Enquire about procedures applied to ensure that a proper cut-off of revenue transactions and sales returns has been achieved.

31. Enquire whether receivables balances represent goods shipped on consignment and, if so, whether adjustments have been made to reverse these transactions and include the goods in inventory.

32. Enquire whether any large credits relating to recorded income have been issued after the balance sheet reporting period and whether provision has been made for such amounts.

Inventories

33. 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.

34. Enquire about the method for counting inventory.

35. Where a physical count was not carried out on the date of the reporting period, enquire 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.

36. Discuss adjustments made resulting from the last physical inventory count.

37. Enquire about procedures applied to control cut-off and any inventory movements at period end.

38. Enquire about the basis used in valuing each inventory classification and, in particular, regarding the elimination of intra-group income. Enquire whether inventory is valued at the lower of cost and net realisable value (or lower of cost and current replacement cost for not-for-profit organisations).

39. Consider the consistency with which inventory valuation methods have been applied, including factors such as material, labour and overhead.

40. Compare amounts of major inventory categories with those of prior periods and with those anticipated for the current period. Enquire about major fluctuations and differences.

41. Compare inventory turnover with that in previous periods.

42. Enquire about the method used for identifying slow moving and obsolete inventory and whether such inventory has been accounted for at the lower of cost and net realisable value.

43. Enquire whether any inventory has been consigned to the entity and, if so, whether adjustments have been made to exclude such goods from inventory.

44. Enquire 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 Investments in Associates and Financial Instruments)

45. Obtain a schedule of investments at the date of the reporting period and determine whether it agrees with the trial balance.

46. Enquire about the accounting policies applied to investments.

47. Enquire from management about the carrying amounts of investments. Consider whether there are any realisation or other impairment problems.

48. Consider whether there has been proper accounting for gains and losses and investment income.

49. Enquire about the classification of long-term and short-term investments.

Property, Plant and Equipment and Depreciation

50. Obtain a schedule of the property, plant and equipment indicating the cost and accumulated depreciation and determine whether it agrees with the trial balance.

51. Enquire about the accounting policy applied regarding residual values, provisions to allocate the cost of property, plant and equipment over their estimated useful lives using the expected pattern of consumption of the future economic benefits and distinguishing between capital and maintenance items. Consider whether the property, plant and equipment have suffered an impairment in value.

52. Discuss with management significant additions and disposals to property, plant and equipment accounts and accounting for gains and losses on disposals or de-recognition. Enquire whether all such transactions have been accounted for.

53. Enquire about the consistency with which the depreciation method and rates have been applied and compare depreciation accumulations with prior years.

54. Enquire whether there are any restrictions on the property, plant and equipment.

55. Discuss whether lease agreements have been properly reflected in the financial report in conformity with current accounting pronouncements.

Prepaid Expenses, Intangibles and Other Assets

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

57. Enquire about the basis for recording these accounts and the amortisation methods used.

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

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

Loans Payable

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

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

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

63. Enquire whether loans payable are secured.

64. Enquire whether loans payable have been appropriately classified between current and non-current.

Trade Payables

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

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

67. Obtain a schedule of trade payables and determine whether the total agrees with the trial balance.

68. Enquire whether balances are reconciled with the creditors' statements and compare with prior period balances. Compare turnover with prior periods.

69. Consider whether there could be material unrecorded liabilities.

70. Enquire whether payables to shareholders, those charged with governance and other related parties are disclosed separately.

Other Liabilities and Contingent Liabilities

71. Obtain a schedule of the other liabilities and determine whether the total agrees with the trial balance.

72. Compare major balances of related expense accounts with similar accounts for prior periods.

73. Enquire about approvals for such other liabilities, terms of payment, compliance with terms, collateral and classification.

74. Enquire about the method for determining other liabilities.

75. Enquire as to the nature of amounts disclosed in contingent liabilities and commitments.

76. Enquire whether any actual or contingent liabilities exist which have not been recognised/disclosed in the financial report. If so, discuss with management and/or those charged with governance whether provisions need to be made in the accounts or whether disclosure should be made in the notes to the financial report.

Income and Other Taxes

77. Discuss with management if there were any events, including disputes with taxation authorities, which could have a significant effect on the taxes payable by the entity.

78. Consider the tax expense in relation to the entity's income for the period.

79. Discuss with management the adequacy of the recognised deferred tax assets and/or liabilities and amounts in respect of prior periods.

Subsequent Events

80. Obtain from management the latest financial report and compare it with the financial report being reviewed or with those for comparable periods from the preceding year.

81. Enquire about events after the balance sheet date that would have a material effect on the financial report under review and, in particular, enquire whether:

    (a) any substantial commitments or uncertainties have arisen subsequent to the balance sheet date;

(b) any significant changes in the share capital, long-term debt or working capital have occurred up to the date of enquiry; and

(c) any unusual adjustments have been made during the period between the balance sheet date and the date of enquiry.

Consider the need for adjustments or disclosure in the financial report.

82. Obtain and read the minutes of meetings of shareholders, those charged with governance and appropriate committees subsequent to the review date.

Litigation

83. Discuss with management whether the entity is the subject of any legal actions - threatened, pending or in process. Consider the effect on the financial report.

Equity

84. Obtain and consider a schedule of the transactions in the equity accounts, including equity contributions, buy-backs of the entity's own equity instruments and dividends.

85. Enquire whether there are any restrictions on retained earnings or other equity accounts.

Operations

86. Compare results with those of prior periods and those expected for the current period. Discuss significant movements/variations with management.

87. Discuss whether the recognition of major revenue and expense items have taken place in the appropriate periods.

88. Enquire about the policies and procedures related to accrued revenue and/or expenses.

89. Consider and discuss with management the relationship between related items in the revenue accounts and assess the reasonableness thereof in the context of similar relationships for prior periods and other available information.

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