FOR YOUR INFORMATION

AAS 33

ENGAGEMENTS TO REVIEW FINANCIAL STATEMENTS[1]

The following is the text of the Auditing and Assurance Standard (AAS) 33, "Engagements to Review Financial Statements", issued by the Council of the Institute of Chartered Accountants of India. This Standard should be read in conjunction with the "Preface to the Statements on Standard Auditing Practices", issued by the Institute.

Introduction

1. The purpose of this Auditing and Assurance Standard (AAS) is to establish standards and provide guidance on the auditor's[2] professional responsibilities when an engagement to review financial statements is undertaken and on the form and content of the report that the auditor issues in connection with such a review.

2. This AAS is directed towards the review of financial statements. However, it is to be applied to the extent practicable to engagements to review financial or other related information, for example, interim financial statements prepared by an entity pursuant to Accounting Standard (AS) 25, Interim Financial Reporting. This AAS is to be read in conjunction with the "Framework of Statements on Standard Auditing Practices and Guidance Notes on Related Services" issued by the Institute of Chartered Accountants of India.

Objective of a Review Engagement

3. The objective of a review of financial statements 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 statements are not prepared, in all material respects, in accordance with the financial reporting framework used for the preparation and presentation of the financial statements[3] (negative assurance).

General Principles of a Review Engagement

4. **The auditor should comply with the Code of Ethics issued by the Institute of Chartered Accountants of India.** Ethical principles governing the auditor's professional responsibilities are:
   (a) Independence;
   (b) Integrity;
   (c) Objectivity;
   (d) Professional competence and due care;
   (e) Confidentiality;
   (f) Professional conduct; and
   (g) Technical standards.

5. **The auditor should conduct a review in accordance with this AAS.**

[1] With the issuance of this Auditing and Assurance Standard, and the date from which it become effective, the Guidance Note on Engagements to Review Financial Statements issued by the Institute of Chartered Accountants of India in May 2000 shall stand withdrawn.

[2] As explained in the Framework of Statements on Standard Auditing Practices and Guidance Notes on Related Services, the SAPs (now AASs) and Guidance Notes use the term "auditor" when describing both auditing and related services which may be performed. Such reference is not intended to imply that a person performing related services need be the auditor of the entity's financial statements.

[3] Paragraph 3 of Framework of Statements on Standard Auditing Practices and Guidance Notes on Related Services, issued by the Institute of Chartered Accountants of India, discusses the financial reporting framework. The paragraph reads as under:

"Financial Reporting Framework

Financial statements are ordinarily prepared and presented annually and are directed towards the common information needs of a wide range of users. Many of those users rely on financial statements as their major source of information because they do not have the power to obtain additional information to meet their specific information needs. Thus, financial statements need to be prepared in accordance with one, or a combination of:

(a) relevant statutory requirements, e.g., the Companies Act, 1956, for companies;
(b) accounting standards issued by the Institute of Chartered Accountants of India; and
(c) other recognised accounting principles and practices, e.g., those recommended in the Guidance Notes issued by the Institute of Chartered Accountants of India."

6. The auditor should plan and perform the review with an attitude of professional skepticism recognising that circumstances may exist which cause the financial statements to be materially misstated.

7. **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

8. 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 financial statements should be determined by the auditor having regard to the requirements of this AAS, relevant legislation, regulation and, where appropriate, the terms of the review engagement and reporting requirements.** The scope of a review is substantially narrower as compared to an audit in accordance with the generally accepted auditing standards for the expression of an opinion on the financial statements. Accordingly, while a review involves the application of audit skills and techniques, it does not usually involve a study and evaluation of internal accounting controls, tests of accounting records and of responses to inquiries by obtaining corroborating evidential matter through inspection, observation or confirmation and certain other procedures ordinarily performed during an audit.

Moderate Assurance

9. A review engagement provides a moderate level of assurance that the information subject to review is free of material misstatement; this is expressed in the form of negative assurance. Although the auditor attempts to become aware of all significant matters, the limited procedures of a review make the achievement of this objective less likely than in an audit engagement, thus the level of assurance provided is correspondingly less than that given in an audit.

Terms of Engagement

10. **The auditor and the client should agree on the terms of the engagement.** The agreed terms would be recorded in an engagement letter or other suitable form such as a contract.

11. An engagement letter will be of assistance in planning the review work. It is in the interests of both the auditor and the client that the auditor sends an engagement letter documenting the key terms of the appointment. An engagement letter confirms the auditor's acceptance of the appointment and helps avoid misunderstanding regarding such matters as the objectives and scope of the engagement and the extent of the auditor's responsibilities.

12. Matters that would be included in the engagement letter include:
   - The objective of the service being performed.
   - Management's responsibility for the financial statements.
   - The scope of the review, including reference to this AAS.
   - Unrestricted access to whatever records, documentation and other information requested in connection with the review.
   - The fact that the engagement cannot be relied upon to disclose errors, violation of laws or other irregularities, for example, fraud or defalcations that may exist.
   - 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 financial statements appears in Appendix 1 to this AAS.

Planning

13. **The auditor should plan the work so that an effective review engagement will be performed.**

14. **In planning a review of financial statements, the auditor should obtain or update the knowledge of the business including consideration of the entity's organisation, accounting systems, operating characteristics and the nature of its assets, liabilities, revenues and expenses.**

15. The auditor needs to possess an understanding of such matters and other matters relevant to the financial statements, for example, 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 appropriate procedures, as well as to assess the responses and other information obtained.

Work Performed by Others

16. **When using work performed by another auditor or an expert, the auditor should be satisfied that such work is adequate for the purposes of the review.**

Documentation

17. **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 this AAS.

Procedures and Evidence

18. **The auditor should apply judgment in determining the specific nature, timing and extent of review procedures.** The auditor will be guided by such matters as:
    - Any knowledge acquired by carrying out audits or reviews of the financial statements for prior periods.
    - The auditor's knowledge of the business including knowledge of the accounting principles and practices of the industry in which the entity operates.
    - The entity's accounting systems.
    - The extent to which a particular item is affected by management judgment.
    - The materiality of transactions and account balances.
19. **The auditor should apply the same materiality considerations as would be applied if an audit opinion on the financial statements were being given.** Although there is a greater risk that misstatements will not be detected in a review than in an audit, the judgment 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.
20. Procedures for the review of financial statements will ordinarily include:
    - Obtaining an understanding of the entity's business and the industry in which it operates.
    - Inquiries concerning the entity's accounting principles, policies and practices.
    - Inquiries concerning the entity's procedures for recording, classifying and summarising transactions, accumulating information for disclosure in the financial statements and preparing financial statements.
    - Inquiries concerning all material assertions in the financial statements.
    - Analytical procedures designed to identify relationships and individual items that appear unusual. Such procedures would include:
        - Comparison of the financial statements with statements for prior periods.
        - Comparison of the financial statements with anticipated results and financial position.
        - Study of the relationships of the elements of the financial statements 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.
    - 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 statements.
    - Reading the financial statements to consider, on the basis of information coming to the auditor's attention, whether the financial statements appear to conform to the basis of accounting indicated.
    - Obtaining reports from other auditors, if any and if considered necessary, who have been engaged to audit or review the financial statements of components of the entity.
    - Inquiries of persons having responsibility for financial and accounting matters concerning, for example:
        - Whether all transactions have been recorded.
        - Whether the financial statements have been prepared in accordance with the basis of accounting policies indicated.
        - Changes in the entity's business activities and accounting principles, policies and practices.
        - Matters as to which questions have arisen in the course of applying the foregoing procedures.
    - Obtaining written representations from management when considered appropriate.

    Appendix 2 to this AAS provides an illustrative list of procedures which are often used in an engagement to review financial statements. The list is not exhaustive, nor is it intended that all the procedures suggested apply to every review engagement.
21. **The auditor should inquire about events subsequent to the balance sheet date that may require adjustment of, or disclosure in the financial statements.** The auditor does not have any responsibility to perform procedures to identify events occurring after the date of the review report.
22. **If the auditor has reason to believe that the information subject to review may be materially misstated, the auditor should carry out additional or more extensive procedures as are necessary to be able to express negative assurance or to confirm that a modified report is required.**

Conclusions and Reporting

23. **The review report should contain a clear written expression of negative assurance. The auditor should review and assess the conclusions drawn from the evidence obtained as the basis for the expression of negative assurance.**
24. **Based on the work performed, the auditor should**

assess whether any information obtained during the review indicates that the financial statements do not give a true and fair view (or 'are not presented fairly, in all material respects') in accordance with the financial reporting framework used for the preparation and presentation of financial statements and relevant statutory requirements, if any.

25. The report on a review of financial statements describes the scope of the engagement to enable the reader to understand the nature of the work performed and make it clear that an audit was not performed and, therefore, that an audit opinion is not expressed.

26. **The report on a review of financial statements should contain the following basic elements, ordinarily in the following layout:**
   - **(a) Title[4];**
   - **(b) Addressee;**
   - **(c) Opening or introductory paragraph including:**
     - **(i) Identification of the financial statements on which the review has been performed; and**
     - **(ii) A statement of the responsibility of the entity's management and the responsibility of the auditor;**
   - **(d) Scope paragraph, describing the nature of a review, including:**
     - **(i) A reference to this AAS applicable to review engagements, or to relevant laws or regulations;**
     - **(ii) A statement that a review is limited primarily to inquiries and analytical procedures; and**
     - **(iii) 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;**
   - **(e) Statement of negative assurance;**
   - **(f) Date of the report;**
   - **(g) Place; and**
   - **(h) Auditor's signature and membership number assigned by the Institute of Chartered Accountants of India.**

   Appendices 3 and 4 to this AAS contain illustrations of review reports.

27. **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 the financial statements do not give a true and fair view (or 'are not presented fairly, in all material respects') in accordance with the framework used for the preparation and presentation of financial statements (negative assurance); or**
   - (b) **If matters have come to the auditor's attention, describe those matters that impair a true and fair view (or a fair presentation, in all material respects) in accordance with the framework used for the preparation and presentation of financial statements including, unless impracticable, a quantification of the possible effect(s) on the financial statements, and either:**
     - (i) **Express a qualification of the negative assurance provided; or**
     - (ii) **When the effect of the matter is so material and pervasive to the financial statements that the auditor concludes that a qualification is not adequate to disclose the misleading or incomplete nature of the financial statements, give an adverse statement that the financial statements do not give a true and fair view (or 'are not presented fairly, in all material respects') in accordance with the framework used for the preparation and presentation of financial statements; or**
   - (c) **If there has been a material scope limitation, describe the limitation and either:**
     - (i) **Express a qualification of the negative assurance provided regarding the possible adjustments to the financial statements that might have been determined to be necessary had the limitation not existed; or**
     - (ii) **When the possible effect of the limitation is so significant and pervasive that the auditor concludes that no level of assurance can be provided, not provide any assurance.**

28. **The auditor should date the review report as of the date the review is completed, which is the date on which the auditor signs the review report.** The date of report informs the reader that the auditor has considered the effect on the financial statements and on the report of the events and transactions of which the auditor became aware and that occurred up to that date. **Therefore, the review should include performing procedures relating to events occurring up to the date of the report.**

29. **Since the auditor's responsibility is to report on the financial statements as prepared and presented by the management, the auditor should not date the report earlier than the date on which the financial statements are signed or approved by the management.**

30. **The auditor should not agree to a change of engage-**

[4] It may be appropriate to use the term "independent" in the title to distinguish the auditor's report from reports that might be issued by others, such as officers of the entity, or from the reports of other auditors who are not required to abide by the ethical requirements laid down by the Institute of Chartered Accountants of India.

ment where there is no reasonable justification for doing so. If the auditor is unable to agree to a change of the engagement and is not permitted to continue the original engagement, the auditor should withdraw and consider whether there is any obligation, either contractual or otherwise, to report the circumstances necessitating the withdrawal to other parties, such as the board of directors or shareholders.

Effective Date

31. This Auditing and Assurance Standard (AAS) becomes operative for all review engagements relating to accounting periods beginning on or after 1 April 2005.

Compatibility with International Standard on Review Engagement (ISRE) 2400

The auditing standards established in this Auditing and Assurance Standard are generally consistent in all material respects with those set out in International Standard on Review Engagements (ISREs) 2400 on Engagements to Review Financial Statements except the following:

(a) The AAS does not require the engagement letter to include form of report to be issued pursuant to the engagement since the format of report, in some cases, is prescribed by the laws or regulations pursuant to which the financial statements are required to be reviewed.

(b) Due to the practices prevailing in India, the AAS requires the auditor to mention the "Place" instead of the "Auditor's Address" [see paragraph 26] in the report on a review of financial statements. The place of signature is the name of specific location, which is ordinarily the city where the review report is signed. According to ISA 700 (which defines the term), the expression "Auditor's Address" means the name of a specific location, which is ordinarily the city where the auditor maintains the office that has the responsibility for the audit.

(c) The AAS requires the auditor to mention the membership number assigned by the Institute of Chartered Accountants of India [see paragraph 26]. ISRE 2400, however, does not contain any corresponding requirement.

(d) Paragraph 29 of the AAS requires that the auditor should not agree to a change of engagement where there is no reasonable justification for doing so. If the auditor is unable to agree to a change of the engagement and is not permitted to continue the original engagement, the auditor should withdraw and consider whether there is any obligation, either contractual or otherwise, to report the circumstances necessitating the withdrawal to other parties, such as the board of directors or shareholders. There is no corresponding requirement in ISRE 2400.

APPENDIX 1

Example of an Engagement Letter for a Review of Financial Statements

The following letter is for use as a guide in conjunction with the consideration outlined in paragraph 12 of this AAS and will need to be varied according to individual requirements and circumstances.

To the Board of Directors (or the appropriate representative of senior management):

This is with reference to your letter dated_____, appointing us to review the financial statements for the period ended_______.

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 perform the following services:

We will review the balance sheet of ABC Company as of March 31, 20XX, and the related statement of profit and loss and cash flows for the year then ended, in accordance with the Auditing and Assurance Standard (AAS) 33, Engagements to Review Financial Statements issued by the Institute of Chartered Accountants of India. We will not perform an audit of such financial statements and, accordingly, we will not express an audit opinion on them. Accordingly, we are expected to provide a negative assurance on the financial statements reviewed by us.

Responsibility for the financial statements, 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 will request written representations from management concerning assertions made in connection with the review.

This letter will be effective for future years unless it is terminated, amended or superseded (applicable only in a continuing engagement).

Our engagement cannot be relied upon to disclose whether fraud or errors, or violation of laws and regulations exist. However, we will inform you of any material matters that come to our attention.

We also wish to invite your attention to the fact that our audit process is subject to 'peer review' under the Chartered Accountants Act, 1949. The reviewer may examine our working papers during the course of the peer review.

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 statements.

XYZ & Co.
Chartered Accountants
....
(Signature)
(Name of the Member)
(Designation[5])

Acknowledged on behalf of
ABC Company by
……………………..
(Signature)
Name and Designation
Date

[5] Partner or proprietor, as the case may be.

APPENDIX 2

Illustrative Detailed Procedures that may be performed in an Engagement to Review Financial Statements

1. The inquiry and analytical review procedures carried out in a review of financial statements are determined by the auditor's judgment. When the auditor performs the inquiry and analytical review procedures, the auditor should use his professional judgment and experience in evaluating the results of such procedures and their effect on the review report and other procedures to be performed in connection with the review engagement. 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 one or checklist in the conduct of a review.

General

2. Discuss terms and scope of the engagement with the client and the engagement team.
3. Prepare an engagement letter setting forth the terms and scope of the engagement.
4. Obtain an understanding of the entity's business activities and the system for recording financial information and preparing financial statements.
5. Inquire whether all financial information is recorded:
   (a) completely;
   (b) promptly; and
   (c) after the necessary authorisation.
6. Obtain the trial balance and verify whether it agrees with the general ledger and the financial statements.
7. Consider the results of previous audits and review engagements, including accounting adjustments made.
8. Inquire whether there have been any significant changes in the entity from the previous year (*e.g.*, changes in ownership or changes in capital structure).
9. Inquire about the accounting policies and consider whether:
   (a) they comply with accounting standards;
   (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.
10. 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.
11. Inquire if actions taken at shareholder, board of directors or comparable meetings that affect the financial statements have been appropriately reflected therein.
12. Inquire about the existence of transactions with related parties, how such transactions have been accounted for and whether related parties have been properly disclosed.
13. Inquire about contingencies and commitments.
14. Inquire about plans to dispose off major assets or business segments.
15. Obtain the financial statements and discuss them with management.
16. Consider the adequacy of disclosures in the financial statements and their suitability as to classification and presentation.
17. Compare the results shown in the current period financial statements with those shown in financial statements for comparable prior periods and, if available, with budgets and forecasts.
18. Obtain explanations from management for any unusual fluctuations or inconsistencies in the financial statements.
19. 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.
20. Consider obtaining a representation letter from management.

Analytical Procedures and Inquiry

21. Obtain interim financial information and make the following comparisons for individual items appearing in the financial statements:
    - Current period to budgets and forecasts
    - Current period to immediately preceding period
    - Current period to same period in preceding year
    - Current year-to-date to preceding year-to-date
    - Current period to last audited period, wherever appropriate
22. Inquire about significant changes since the last audited balance sheet in various items such as:
    - Capital and reserves
    - Loans
    - Current liabilities and provisions
    - Fixed assets
    - Investments
    - Inventories
    - Current assets
    - Loans and advances
    - Deferred revenue expenditure, etc.
23. Obtain or calculate selected ratios on a comparative basis. These ratios could be:
    - Current
    - Quick
    - Debtors turnover
    - Inventory turnover
    - Depreciation to fixed assets
    - Debt to equity
    - Gross profit
    - Net profit
    - Input output
24. Inquire about the relationship between related items in

the statement of profit and loss as well as the quantitative data relating to production, purchases, sales, etc. and assess the reasonableness thereof, in the context of similar relationships for prior periods and other information available to the auditor.

25. In respect of comparison made in 21 through 24 above, obtain reasons for significant variances and discuss with management.

Cash and Bank

26. Obtain the bank reconciliation statement. Inquire about any old or unusual reconciling items with client personnel.
27. Inquire about transfers between cash accounts for the period before and after the review date.
28. Inquire whether there are any restrictions on cash accounts.

Receivables

29. Inquire about the accounting policies for initial recording of trade receivables and determine whether any allowances or discounts are given on such transactions.
30. Obtain a schedule of receivables and verify whether the total agrees with the trial balance.
31. Obtain and consider explanations of significant variations in account balances from previous periods or from those anticipated.
32. 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.
33. Discuss with management the classification of receivables, including net credit balances and amounts due from directors and other related parties in the financial statements.
34. Inquire about the method for identifying "slow payment" accounts and setting allowances for doubtful accounts and consider it for reasonableness.
35. Inquire whether receivables have been pledged, factored or discounted.
36. Inquire about procedures applied to ensure that a proper cut-off of sales transactions and sales returns has been achieved.
37. Inquire whether receivables attributable to goods sent on consignment account have not been included in sales and such goods have been included in inventories.
38. 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.

Inventories

39. Obtain the inventory list and verify that the total agrees with the balance in the trial balance or other relevant records.
40. Inquire the procedures followed for recording inventory and determine the necessity of physical count of inventory. For example, a physical count may not be carried out, in case
    - A perpetual inventory system is used and periodic comparisons are made with actual quantities on hand.
    - An integrated cost system is used and it has produced reliable information in the past.
41. In case of physical count, inquire about the method for counting inventory and agree the inventory list with the physical count.
42. Discuss adjustments made resulting from the last physical inventory count.
43. Inquire about procedures applied to control cut-off and any inventory movements at the end of the period.
44. Inquire about the basis used in valuing each category of the inventory and, in particular, regarding the elimination of inter-branch profits. Inquire whether inventory is valued at the lower of cost and net realisable value.
45. Consider the consistency with which inventory valuation methods have been applied.
46. 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.
47. Inquire about the method used for identifying slow moving and obsolete inventory and whether such inventory has been accounted for at net realisable value.
48. Inquire whether any inventory has been consigned to the entity and, if so, whether adjustments have been made to exclude such goods from inventory.
49. 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

50. Obtain a schedule of the investments at the balance sheet date and verify whether it agrees with the trial balance.
51. Inquire about the accounting policy applied to investments.
52. Inquire about the classification of long-term and current investments.
53. Consider whether there has been proper accounting for gains and losses and investment income.
54. Inquire from management about the carrying values of investments. Consider whether there is any permanent diminution in value thereof.

Fixed Assets and Depreciation

55. Obtain a schedule of the fixed assets indicating the cost and accumulated depreciation and verify whether it agrees with the trial balance.
56. Inquire about the accounting policy applied regarding the provision for depreciation and distinguishing between capital and maintenance items.

57. Discuss with management the additions and deletions to fixed assets accounts and accounting for gains and losses on sales or retirements. Inquire whether all such transactions have been accounted for.
58. Inquire about the consistency with which the depreciation method and rates have been applied and compare depreciation provisions with prior years.
59. Obtain schedule of repairs and maintenance and inquire about significant amounts.
60. Consider whether the fixed assets have suffered a material, impairment in value and adequate provision has been made in respect thereof.
61. Inquire whether there are any liens on the fixed assets.
62. Consider whether lease agreements have been properly dealt with in the financial statements in conformity with accounting pronouncements.

Prepaid Expenses

63. Obtain schedules identifying the nature of these accounts and discuss with management the recoverability thereof wherever appropriate.
64. Inquire about the basis for recording these accounts and the adjustment methods used.
65. Compare balances of related expense accounts with those of prior periods and discuss significant variations with management.

Intangibles and Other Assets

66. Obtain schedules of intangible and other assets accounts, determine the nature of these accounts and discuss with management the recoverability of intangible and other assets, wherever appropriate.
67. Inquire about the basis of recognition of such assets and the methods of amortisation used for such accounts.
68. Inquire about the consistency with which the amortisation methods have been applied and compare amortisation provisions with prior years.

Capital and Reserves

69. Obtain and consider a schedule of the transactions in the capital account and reserves accounts, including new issues, redemption, buy back, and dividends.
70. Inquire whether there are any restrictions on reserves and surpluses.

Loans Payable

71. Obtain from management a schedule of loans payable and verify whether the total agrees with the trial balance.
72. 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 statements.
73. Consider the reasonableness of interest expense in relation to loan balances.
74. Inquire whether loans payable are secured.
75. Inquire whether loans payable have been appropriately classified between long-term and short-term.

Trade Payables

76. Obtain a schedule of trade payables and verify whether the total agrees with the trial balance.
77. Inquire about the accounting policies for initial recording of trade payables and whether the entity is entitled to any allowances or discounts given on such transactions.
78. Obtain and consider explanations of significant variations in account balances from previous periods or from those anticipated.
79. Inquire whether balances are reconciled with the creditors' statements and compare with prior period balances.
80. Consider whether there could be material unrecorded liabilities.

Accrued and Contingent Liabilities

81. Obtain a schedule of the accrued liabilities and verify whether the total agrees with the trial balance. Inquire about the method of determining accrued liabilities.
82. Compare major balances of related expense accounts with similar accounts for prior periods.
83. Determine whether the recognition of major expenses has taken place in the appropriate periods.
84. Inquire about approvals for such accruals, terms of payment, compliance with terms.
85. Inquire as to the nature of amounts included in contingent liabilities and commitments. Inquire whether any actual or contingent liabilities exist which have not been appropriately dealt with in the financial statements . If so, discuss with management whether provisions need to be made in the accounts or whether disclosure should be made in the notes to the financial statements.

Litigation

86. 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 statements.

Income and Other Taxes

87. Inquire from management if there were any events, including disputes with taxation authorities (both direct and indirect taxes), which could have a significant effect on the taxes payable by the entity. If yes, determine whether any provision is required.
88. Consider the tax expense (both current and deferred) in relation to the entity's income for the period.

89. Inquire from management as to the adequacy of the recorded deferred and current tax liabilities including provisions in respect of prior periods.

Subsequent Events

90. Obtain from management the latest interim financial statements and compare them with the financial statements being reviewed or with those for comparable periods from the preceding year.
91. Inquire about events after the balance sheet date that would have a material effect on the financial statements under review and, in particular, inquire 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 inquiry; and
    (c) Any unusual adjustments have been made during the period between the balance sheet date and the date of inquiry.
92. Obtain and read the minutes of meetings of shareholders, directors and appropriate committees subsequent to the balance sheet date.
93. Consider the need for adjustments or disclosure in the financial statements.

Extraordinary Items

94. Inquire and determine whether there are any extraordinary and unusual items and if so, whether these have been appropriately disclosed.

Operations

95. Compare results with those of prior periods and those expected for the current period. Discuss significant variations with management.
96. Discuss whether the recognition of major sales and expenses have taken place in the appropriate periods.
97. Consider and discuss with management the relationship between related items in the statement of profit and loss and assess the reasonableness thereof in the context of similar relationships for prior periods and other information available to the auditor.

Other Procedures

98. Inquire about:
    - Changes in key management personnel.
    - Major interruptions of operations due to strike, casualty, such as fire, etc.
    - Significant contracts and agreements entered into/committed during the period.
    - Wage settlements, if any.
    - Changes in legislation that are likely to have material affect on the entity.

APPENDIX 3

Form of Unqualified Review Report

REVIEW REPORT TO...

We have reviewed the accompanying balance sheet of ABC Company at March 31, 20XX, and the related statement of profit and loss and cash flows for the year then ended. These financial statements have been approved by the board of directors of the company and are the responsibility of the company's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the Auditing and Assurance Standard (AAS) 33, Engagements to Review Financial Statements issued by the Institute of Chartered Accountants of India. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements do not give a true and fair view (or 'are not presented fairly, in all material respects') in accordance with Accounting Standards issued by the Institute of Chartered Accountants of India.

For ABC and Co.,
Chartered Accountants

Auditor's Signature

(Name of Member signing the Audit Report)

(Designation)[6]

(Membership Number)

Place
Date

[6] Partner or proprietor, as the case may be.

FOR YOUR INFORMATION

APPENDIX 4

Examples of Review Reports other than Unqualified

Qualification for a Departure from an Accounting Standard

REVIEW REPORT TO...

We have reviewed the accompanying balance sheet of ABC Company at March 31, 20XX, and the related statement of profit and loss and cash flows for the year then ended. These financial statements have been approved by the board of directors of the company and are the responsibility of the company's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the Auditing and Assurance Standard (AAS) 33, Engagements to Review Financial Statements issued by the Institute of Chartered Accountants of India. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Management has informed us that inventory has been stated at its cost, which is in excess of its net realisable value. Management's computation, which we have reviewed, shows that inventory, if valued at the lower of cost and net realisable value as required by Accounting Standard (AS) 2, "Valuation of Inventories" issued by the Institute of Chartered Accountants of India, would have been decreased by Rs. X, and net profit and reserves would have been decreased by Rs. X.

Based on our review, 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 accompanying financial statements do not give a true and fair view (or 'are not presented fairly, in all material respects') in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India.

For ABC and Co.,
Chartered Accountants
Auditor's Signature
(Name of Member signing the Audit Report)
(Designation)[7]
(Membership Number)

Place
Date

Adverse Report for a Departure from an Accounting Standard

REVIEW REPORT TO...

We have reviewed the accompanying balance sheet of ABC Company at March 31, 20XX, and the related statement of profit and loss and cash flows for the year then ended. These financial statements have been approved by the board of directors of the company and are the responsibility of the company's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the Auditing and Assurance Standard (AAS) 33, Engagements to Review Financial Statements issued by the Institute of Chartered Accountants of India. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

As noted in note X, the Company has adopted the method of taking entire profits on construction contracts to the statement of profit and loss on entering into the contract. This has resulted in anticipating the profit in cases where the contracts have not even been commenced or where only a very minor part of the expenditure relating to the construction contracts has been incurred. This method of accounting is contrary to the requirements of Accounting Standard (AS) 7, "Accounting for Construction Contracts", issued by the Institute of Chartered Accountants of India.

Based on our review, because of the pervasive effect on the financial statements of the matter discussed in the preceding paragraph, the accompanying financial statements do not give a true and fair view (or 'are not presented fairly, in all material respects') in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India.

For ABC and Co.,
Chartered Accountants
Auditor's Signature
(Name of Member signing the Audit Report)
(Designation)[8]
(Membership Number)

Place
Date

[7] Partner or proprietor, as the case may be.
[8] Partner or proprietor, as the case may be.