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GUIDANCE NOTE ON ENGAGEMENTS TO REVIEW FINANCIAL STATEMENTS*

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* Published in May, 2000 issue of 'The Chartered Accountant.

Introduction

1. The purpose of this Guidance Note is to provide guidance on the auditor's[1] professional responsibilities when an engagement to review[2] financial statements is undertaken and on the form and content of the report that the auditor issues in connection with such a review. This Guidance Note supersedes section 7, 'Limited Review Report', of the Guidance Note on Audit Reports and Certificates for Special Purposes, issued by the Institute of Chartered Accountants of India. It is clarified that this Guidance Note would also be applicable to review of interim financial statements (e.g., half-yearly) as per the requirements of any regulatory authority or otherwise.

2. This Guidance Note is directed towards the review of financial statements. However, it is to be applied to the extent practicable to engagements to review other financial information also (the term 'financial statements' is used in this Guidance Note to encompass 'other financial information' also). The standards set out in the Statements on Auditing and Statements on Standard Auditing Practices (SAPs)[3] issued by the Institute of Chartered Accountants of India would be applicable in review of financial statements, to the extent relevant.

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 accounting standards, other recognised accounting policies and practices and relevant statutory requirements, if any (negative assurance).

General Principles of a Review Engagement

4. As in any other professional assignment, the auditor should comply with the "Code of Ethics" issued by the Institute of Chartered Accountants of India.

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[1] The term auditor is used throughout this Guidance Note when describing services involving review of financial statements. Such reference is not intended to imply that a person performing these services need necessarily be the auditor of the entity's financial statements.

[2] Sometimes termed as 'Limited Review'.

[3] Now known as the Auditing and Assurance Standards.

5. The auditor should conduct a review in accordance with this Guidance Note.

6. 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

7. 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 Guidance Note, 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.

Moderate Assurance

8. A review engagement provides a moderate level of assurance that the information subject to review is free of material misstatements; this is expressed in the form of negative assurance.

Terms of Engagement

9. 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.

10. An engagement letter will be of assistance in planning the review work. It is in the interest 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.

11. The engagement letter would include:

- The objective of the service being performed.

- Management's responsibility for the financial statements.
- The scope of the review.
- Unrestricted access to whatever records, documentation and other information requested in connection with the review.
- 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 Guidance Note.

Planning

12. The auditor should plan the work so that an effective engagement will be performed.

13. 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.

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

Work Performed by Others

15. 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

16. 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 Guidance Note.

Procedures and Evidence

17. 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.

18. 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.

19. Procedures for the review of financial statements will include:

- Obtaining an understanding of the entity's business and the industry in which it operates.
- Inquiries concerning the entity's accounting 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.
- Study of the financial statements to consider, on the basis of information coming to the auditor's attention, whether the financial statements appear to conform with 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 accounting policies indicated.
  - Changes in the entity's business activities.
  - Changes in accounting 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 Guidance Note 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.

20. The auditor should inquire about events subsequent to the date of the

financial statements 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.

21. 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 qualification, disclaimer or reservation in the report or an adverse report is required.

Conclusions and Reporting

22. 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.

23. 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 in accordance with accounting standards, other recognised accounting policies and practices and relevant statutory requirements, if any.

24. 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.

25. The report on a review of financial statements should contain the following basic elements, ordinarily in the following layout:

(a) title;

(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;

(d) scope paragraph, describing the nature of a review, including:

  (i) a statement that a review is limited primarily to inquiries and analytical procedures; and

(ii) 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) auditor's address; and

(h) auditor's signature.

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

26. 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 statements do not give a true and fair view in accordance with the accounting standards, other recognised accounting policies and practices and relevant statutory requirements, if any (negative assurance); or

(b) if matters have come to the auditor's attention, describe those matters that impair the true and fair view in accordance with the accounting standards, other recognised accounting policies and practices and relevant statutory requirements, if any, including, unless impracticable, a quantification of the possible effect(s) thereof on the financial statements, and either:

(i) express a qualification to the negative assurance; 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 in accordance with the accounting standards and other recognised accounting policies and practices and relevant statutory requirements, if any; or

(c) if there has been a material scope limitation, describe the limitation and either:

(i) express a qualification to the negative assurance 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.

27. The auditor should date the review report as of the date the review is completed, since he would be performing procedures relating to events occurring up to the date of the report. However, since the auditor's responsibility is to report on the financial statements as prepared and presented by management, the auditor should not date the review report earlier than the date on which the financial statements were approved by management.

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 considerations outlined in paragraph 11 of this Guidance Note and may need to be modified 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, XXXX, and the related Statement of Profit and Loss for the year then ended. We will not perform an audit of such financial statements and, accordingly, we will not express an audit opinion on them.

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[3].)

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.

For X & Co.
Signature
(Name of the partner)
Partner
Chartered Accountants

Date:
Address:

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

[3] This sentence should be used at the discretion of the auditor.

Appendix 2

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

The inquiry and analytical review procedures carried out in a review of financial statements are determined by the auditor's judgment. 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 programme or checklist in the conduct of a review.

General

1. Discuss terms and scope of the engagement with the client and the engagement team.
2. Prepare an engagement letter setting forth the terms and scope of the engagement.
3. Obtain an understanding of the entity's business activities and the system for recording financial information and preparing financial statements.
4. Inquire whether all financial information is recorded:
   (a) completely;
   (b) promptly; and
   (c) after the necessary authorisation.
5. Obtain the trial balance and determine whether it agrees with the general ledger and the financial statements.
6. Consider the results of previous audits and review engagements, including accounting adjustments required.
7. 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).
8. Inquire about the accounting policies and consider whether:
   (a) they comply with the 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.

9. Read the minutes of meetings of shareholders, the board of directors and other appropriate committees in order to identify maters that could be important to the review.
10. Inquire if actions taken at the meetings of shareholders, board of directors etc., that affect the financial statements, 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 off major assets or business segments.
14. Obtain the financial statements and discuss them with management.
15. Consider the adequacy of disclosure in the financial statements and their suitability as to classification and presentation.
16. 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.
17. Obtain explanations from management for any unusual fluctuations or inconsistencies in the financial statements.
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.
21. Inquire about transfers between cash accounts for the period before and after the balance sheet date.

Receivables

22. Inquire about the accounting policies for initially recording trade receivables and determine whether any allowances are given on such transactions.
23. Obtain a schedule of receivables and determine whether the total agrees with the trial balance.

24. Obtain and consider explanations of significant variations in account balances from previous periods or from those anticipated.
25. Obtain an age-wise 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.
26. Discuss with management, the classification of receivables, including, net credit balances and amounts due from directors and other related parties in the financial statements.
27. Inquire about the method for identifying "slow payment" accounts and setting allowances for doubtful accounts and consider it for reasonableness.
28. Inquire whether receivables have been pledged, factored or discounted.
29. Inquire about procedures applied to ensure that a proper cut-off of sales transactions and sales returns has been achieved.
30. Inquire whether there are any large credits relating to revenue recorded after the balance sheet date and whether provision has been made for such amounts.

Inventories

31. 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.
32. Inquire about the method for counting inventory.
33. 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.
34. Discuss adjustments made resulting from the last physical inventory count.
35. Inquire about procedures applied to control cut-off and any inventory movements.

36. 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.
37. Consider the consistency with which inventory valuation methods have been applied, including factors such as material, labour and overhead.
38. 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.
39. Compare inventory turnover with that in previous periods.
40. Inquire about the method used for identifying slow moving and obsolete inventory and whether such inventory has been accounted for at net realisable value.
41. Inquire whether any goods have been received by the entity on consignment basis after the balance sheet date and, if so, whether adjustments have been made to exclude such goods from inventory.
42. 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

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

Fixed assets and depreciation

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

50. 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.
51. Inquire about the consistency with which the depreciation method and rates have been applied and compare depreciation provisions with prior years.
52. Inquire whether there are any liens on the fixed assets.
53. Discuss whether lease assets have been properly reflected in the financial statements in conformity with current accounting pronouncements.

Prepaid expenses, intangibles and other assets

54. Obtain schedules identifying the nature of these accounts and discuss with management the recoverability thereof, wherever appropriate.
55. Inquire about the basis for recording these accounts and the amortisation methods used.
56. Compare balances of related expense accounts with those of prior periods and discuss significant variations with management.
57. Discuss with the management the classification of such assets between fixed and current.

Loans payable

58. Obtain from management a schedule of loans payable and determine whether the total agrees with the trial balance.
59. 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.
60. Consider the reasonableness of interest expense in relation to loan balances.
61. Inquire whether loans payable are secured.
62. Inquire whether loans payable have been appropriately classified.

Trade payables

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

64. Obtain and consider explanations of significant variations in account balances from previous periods or from those anticipated.
65. Obtain a schedule of trade payables and determine whether the total agrees with the trial balance.
66. Inquire whether balances are reconciled with the creditors' statements and compare with prior period balances. Compare turnover with prior periods.
67. Consider whether there could be material unrecorded liabilities.
68. Inquire whether payables to directors and other related parties are separately disclosed.

Accrued and contingent liabilities

69. Obtain a schedule of the accrued liabilities and determine whether the total agrees with the trial balance.
70. Compare major balances of related expense accounts with similar accounts for prior periods.
71. Inquire about approvals for such accruals, terms of payment, compliance with terms, collateral and classification.
72. Inquire about the method for determining accrued liabilities.
73. Inquire as to the nature of amounts included in contingent liabilities and commitments.
74. 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 should be made in the notes to the financial statements.

Income and other taxes

75. 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.
76. Consider the tax expense in relation to the entity's income for the period.

Subsequent events

77. 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.

78. 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.

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

79. Obtain and read the minutes of meetings of shareholders, directors and appropriate committees subsequent to the balance sheet date.

Litigation

80. 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.

Capital and Reserves

81. Obtain and consider a schedule of the transactions in the capital and reserves accounts, including new issues and dividends.

82. Inquire whether there are any restrictions on any reserves.

Operations

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

84. Discuss whether the recognition of major sales and expenses have taken place in the appropriate periods.

85. Consider extraordinary items.

86. 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.

Appendix 3[4]

Form of Unqualified Review Report

REVIEW REPORT TO .....

We have reviewed the accompanying Balance Sheet of ABC Company as at March 31, XXXX, and the related Statement of Profit and Loss for the year then ended. These financial statements have been approved by the Board of Directors of the company.

A review is conducted to obtain moderate assurance as to whether the financial statements are free of material misstatements. 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 as aforesaid, nothing has come to our attention that causes us to believe that the accompanying financial statements prepared in accordance with accounting standards and other recognised accounting practices and policies and relevant statutory requirements contain any material misstatement.

Date:
Address:

For X & Co.
Signature (Name of the partner)
Partner
Chartered Accountants

[4] Revised pursuant to the 213th meeting of the Council of the Institute of Chartered Accountants of India, held on 3rd and 4th February, 2001.

Appendix 4[5]

Examples of Review Reports *Other than Unqualified*

Qualification in case of a departure from an Accounting Standard

REVIEW REPORT TO .....

We have reviewed the accompanying Balance Sheet of ABC Company as at March 31, XXXX, and the related Statement of Profit and Loss for the year then ended. These financial statements have been approved by the Board of Directors of the company.

A review is conducted to obtain moderate assurance as to whether the financial statements are free of material misstatements. 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.Y.

Based on our review as aforesaid, 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 prepared in accordance with accounting standards and other recognised practices and policies and relevant statutory requirements contain any material misstatement.

Date:
Address:

For X & Co.
Signature
(Name of the partner)
Partner
Chartered Accountants

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[5] Revised pursuant to the 213th meeting of the Council of the Institute of Chartered Accountants of India held on 3rd and 4th February, 2001.

Adverse Report in case of a departure from an Accounting Standard

REVIEW REPORT TO ……………..

We have reviewed the Balance Sheet of ABC Company at March 31, XXXX, and the related Statement of Profit and Loss[7] for the year then ended. These financial statements have been approved by the Board of Directors of the company.

A review is conducted to obtain moderate assurance as to whether the financial statements are free of material misstatements. 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.

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 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 as aforesaid, because of the pervasive effect on the financial statements of the matter described in the preceding paragraph, the accompanying financial statements do not give true and fair view in accordance with the accounting standards, other recognised accounting policies and practices and relevant statutory requirements.

Date:
Address:

For X & Co.
Signature
(Name of the partner)
Partner
Chartered Accountants

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[7] In case financial information contained in some other statement(s) is reviewed, it may be so identified, e.g., Statement of Unaudited Financial Results for a period, prepared pursuant to Clause 41 of the Listing Agreement.

Clarification I

Applicability of the Guidance Note on Engagements to Review Financial Statements to Limited Reviews under Clause 41 of the Listing Agreement

As the members would be aware that the Securities and Exchange Board of India (SEBI) has notified the amended Clause 41 of the Listing Agreement, containing the format of review report to be given by the auditor under the said Clause. It is hereby clarified that despite the difference in formats of the review report prescribed by the SEBI and that prescribed by the Guidance Note on Engagements to Review Financial Statements, issued by the Institute of Chartered Accountants of India, the procedures recommended in the said Guidance Note would apply equally to the review conducted under Clause 41 of the Listing Agreement and review report prescribed therein by SEBI.

Clarification II*

For the Information of Members/Firms Appointed to Conduct the Half-Yearly Review of Accounts of Banks

Sub: Revision of the Specimen of the Review Report issued by the RBI for Half-Yearly Review of Accounts of Public Sector Banks.

The Reserve Bank of India (RBI) vide its Circular Ref. DBS.ARS.No. BC13/08.91.001/2000-01 dated 17th May, 2001, addressed to the Chairmen and Managing Directors of all Public Sector Banks regarding 'Introduction of half yearly review of accounts of public sector banks' had issued *inter alia,* as Annexure II, a Specimen of the Review Report to be signed by the Reviewer (i.e. the firm of Chartered Accountants appointed for the purpose).

Subsequently, the RBI in consultation with the Institute of Chartered Accountants of India, has decided to revise the specimen of the review report issued as Annexure II to its abovesaid circular. The revised draft of the format of review report is reproduced hereunder. Members are requested to use the following format in place of the Specimen issued earlier by RBI vide its abovesaid circular.

Annexure II

Revised Draft of the Format of Review Report on the Financial Results for the Half-Year Ended 30th September............

Review Report to

We have reviewed the accompanying financial results of ABC bank for the period ended September 30 XXXX. These financial results are the responsibility of the Bank's management and have been taken on record by the Board of Directors.

The financial results incorporate the relevant returns of ______________(*number)* branches reviewed by us,________(*number)* branches including___________(*number)* foreign branches reviewed by other auditors specially appointed for this purpose and unreviewed returns in respect of _________(*number)* branches. In the conduct of our review, we have taken note of the review reports in respect of non-performing assets

* Published in October, 2001 issue of 'The Chartered Accountant', p.592.

received from the concurrent auditors of ____________branches, inspection teams of the bank of__________branches and other firms of auditors of __________branches specifically appointed for this purpose. These review reports cover_______percent of the advances portfolio of the bank.

A review of financial results consists principally of applying analytical procedures to financial data and making enquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express an audit opinion.

Based on our review as aforesaid, nothing has come to our attention that causes us to believe that the accompanying statement of unaudited financial results prepared in accordance with accounting standards and the relevant prudential norms issued by the Reserve Bank of India in respect of income recognition, asset classification, provisioning and other related matters, (*has not disclosed the information required to be disclosed in terms of clause 41 of the Listing Agreement including the manner in which it is to be disclosed or that it)*[*] contains any material misstatements.

Date
Address

For X & Co.,

Signature (Name of Partner)
Partner
Chartered Accountants

[*] Reference to this sentence be made only in case of banking companies required to make disclosures as per clause 41 of the Listing Agreement.