CHAPTER 10

# REVIEW OF FINANCIAL INFORMATION

## LEARNING OUTCOMES

**After studying this chapter, you will be able to:**

- Understand the meaning of review.
- Know about Standards on Review Engagements.
- Gain the Knowledge about SRE 2400 Engagements to Review Historical Financial Statements.
- Know about the importance of "Inquiry" and "Analytical Procedures" in a review engagement.
- Gain the Knowledge about SRE 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity.
- Understand in detail about contents of review reports under SRE 2400 and SRE 2410 respectively.

## CHAPTER OVERVIEW

| Review of Financial Information | Basic and Overview of SRE 2400-Engagements to Review Historical Financial Statements; |
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| | Basic and Overview of SRE 2410-Review of Interim Financial Information Performed by the Independent Auditor of the Entity. |

Madhulika, a CA final student, was part of an engagement team conducting "Review" of quarterly results of "Track Data Limited", a listed company. The audit firm, she was working with, was also statutory auditor of this company. It was a new assignment for her. She knew about mandatory review of quarterly financial results of listed companies by auditors in accordance with SEBI listing regulations.

She was trying to figure out the difference between scope of an audit and review. Why a "Review" has been mandated by the regulator? Does such an exercise involve carrying out of same procedures as in case of an audit? If no, which types of procedures are mainly performed in such an engagement?

Are such procedures limited to reconciling financial statements with underlying accounting records? Whether such an exercise involves performing some other necessary procedures too? Another pertinent issue troubling her related to obtaining of evidence. Whether, in a review, sufficient and appropriate evidence is gathered too? Are responsibilities of a professional accountant performing a review similar to one performing an audit? Basically, she wanted mist on very objective of a review exercise to be cleared.

Excited she was, to understand about reporting requirements, in case of a review engagement. If there was difference in scope of "audit" and "review", contents of a review report ought to be different. What happens if misstatements identified during course of reviewing quarterly results are not corrected by company management?

**Is it possible to issue a modified review report just as in case of an audit? What are modalities of the same? "Mandatory responsibilities of professional accountants for a review engagement must have been clinically described in Standards on Review Engagements" - She was seriously contemplating.**

**She was also considering possibilities of other usage of review of financial information. Besides meeting with mandatory legal and regulatory requirements, what could be other benefits of review engagements to different entities?**

# 1. INTRODUCTION

**What is REVIEW?**

***"Review" is a limited assurance engagement***. Limited assurance is the level of assurance obtained where engagement risk is reduced to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for expressing a conclusion. The combination of nature, timing and extent of evidence gathering procedures is at least sufficient for the practitioner to obtain a meaningful level of assurance. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the financial statements.

In simpler terms, limited assurance engagement provides lower level of assurance than audit. It involves fewer procedures and, gathers sufficient and appropriate evidence on basis of which *limited conclusions* can be drawn up. However, "review" is related to financial statements prepared on basis of historical financial information just like an audit.

## 1.1 Standards on Review Engagements

Standards on Review Engagements apply where "Review" of financial information is undertaken by the practitioner. Following Standards on review engagements have been issued in this regard:

| ***Standards on Review Engagements*** |
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| • SRE 2400 Engagements to Review Historical Financial Statements |
| • SRE 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity |

It is worth remembering that Standards on Quality Control (SQCs) are to be applied for all services covered by Engagement Standards. Standards on review engagements are part of Engagement

Standards. Therefore, quality control at the level of individual review engagements is premised on the basis that the firm is subject to SQC 1.

## 2. SRE 2400 ENGAGEMENTS TO REVIEW HISTORICAL FINANCIAL STATEMENTS

**SRE 2400 deals with**

- **The practitioner's responsibilities when engaged to perform a review of historical financial statements, *when the practitioner is not the auditor of the entity's financial statements* and**
- **The form and content of the practitioner's report on the financial statements.**

In a review of financial statements, the practitioner expresses a conclusion that is designed to enhance the degree of confidence of intended users regarding the preparation of an entity's financial statements in accordance with an applicable financial reporting framework. Such financial statements may have been prepared using general purpose framework or special purpose framework.

The practitioner's conclusion is based on the practitioner obtaining limited assurance. The practitioner's report includes a description of the nature of a review engagement as context for the readers of the report to be able to understand the conclusion.

The practitioner performs primarily *inquiry and analytical procedures* to obtain sufficient and appropriate evidence as the basis for a conclusion on the financial statements as a whole.

If the practitioner becomes aware of a matter that causes the practitioner to believe the financial statements may be materially misstated, he/she designs and performs additional procedures, as he/she considers necessary in the circumstances, to be able to conclude on the financial statements.

SRE 2400 deals with the practitioner's responsibilities performing a review of historical financial statements when the practitioner is not the auditor of the entity's financial statements.

## 2.1 Objectives in a review of financial statements in accordance with SRE 2400

The practitioner's objectives in a review of financial statements in accordance with SRE 2400 are as under:

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| (a) | Obtain limited assurance, primarily by making an *inquiry* and performing *analytical procedures,* about whether the financial statements as a whole are free from material misstatement, thereby enabling the practitioner to express a conclusion on whether anything has come to his attention that causes him to believe the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework |
| (b) | Report on the financial statements as a whole and communicate, as required by this SRE. |

In all cases when limited assurance cannot be obtained and a modified conclusion in the practitioner's report is insufficient in the circumstances, this SRE requires that the practitioner either to disclaim a conclusion in the report issued for the engagement or, where appropriate to withdraw from the engagement if withdrawal is possible under applicable law or regulations.

**TEST YOUR UNDERSTANDING 1**

Roma Limited has entered into a contract with Dorma Limited. There is a condition in the contract by virtue of which Roma Limited is required to get its financial statements reviewed for a year on a quarterly basis in accordance with the financial reporting provisions of the contract. Can Roma Limited get its financial statements reviewed from a professional accountant in practice?

## 2.2 Compliance with Ethical Requirements and Engagement Level Quality Control

The practitioner shall comply with relevant ethical requirements, including those pertaining to independence and the engagement partner is responsible for overall quality of each review engagement.

**Factors affecting Acceptance and Continuance of Client Relationships and Review Engagements**

| **Unless required by law or regulation, the practitioner shall not accept a review engagement if:** | |
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| **(a)** | **The practitioner is not satisfied:** |

<table>
<tr><td>(i) That there is a rational purpose for the engagement. Assurance engagements may only be accepted when the engagement exhibits certain characteristics that are conducive to achieving the practitioner's objectives specified for the engagement.<br><br>It may be unlikely that there is a rational purpose for the engagement if, for example, there is a significant limitation on the scope of work or the practitioner suspects association of the practitioner's name with the financial statements in an inappropriate manner. Similarly, when the engagement is intended to meet compliance requirements of relevant law or regulation and such law or regulation requires the financial statements to be audited, there is no rational purpose for such a review engagement.</td><td>(ii) That a review engagement would be appropriate in the circumstances. When the practitioner's preliminary understanding of the engagement circumstances indicates that accepting a review engagement would not be appropriate, the practitioner may consider recommending that another type of engagement be undertaken. Depending on the circumstances, the practitioner may, for example, believe that performance of an audit engagement would be more appropriate than a review. In other cases, if the engagement circumstances preclude the performance of an assurance engagement, the practitioner may recommend a compilation engagement, or other accounting services engagement, as appropriate.</td></tr>
<tr><td colspan="2">(b) The practitioner has reason to believe that relevant ethical requirements, including independence, will not be satisfied.</td></tr>
<tr><td colspan="2">(c) The practitioner's preliminary understanding of the engagement circumstances indicates that information needed to perform the review engagement is likely to be unavailable or unreliable.</td></tr>
<tr><td colspan="2">(d) The practitioner has cause to doubt management's integrity such that it is likely to affect proper performance of the review or</td></tr>
<tr><td colspan="2">(e) Management or those charged with governance impose a limitation on the scope of the practitioner's work in the terms of a proposed review engagement such that the practitioner believes that the limitation will result in the practitioner disclaiming a conclusion on the financial statements.</td></tr>
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## 2.3 Preconditions for Accepting a Review Engagement

- Acceptability of financial reporting framework applied in preparation of financial statements.
- Agreement of management in acknowledging and understanding its responsibility for preparation of financial statements and internal control.
- Providing access to all information to the practitioner for the purpose of review and unrestricted access to persons within the entity.

**Prior to accepting a review engagement, the practitioner shall: -**

<table>
<tr><td colspan="3">(a) Determine whether the financial reporting framework applied in the preparation of the financial statements is acceptable including, in the case of special purpose financial statements, obtaining an understanding of the purpose for which the financial statements are prepared and of the intended users, and</td></tr>
<tr><td colspan="3">(b) Obtain the agreement of management that it acknowledges and understands its responsibilities:<br><br>(i) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation.<br><br>(ii) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and<br><br>(iii) To provide the practitioner with: -</td></tr>
<tr><td>a. Access to all information of which management is aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;</td><td>b. Additional information that the practitioner may request from management for the purpose of the review; and</td><td>c. Unrestricted access to persons within the entity from whom the practitioner determines it necessary to obtain evidence.</td></tr>
</table>

If the practitioner is not satisfied as to any of the matters set out above as preconditions for accepting a review engagement, the practitioner shall discuss the matter with the management or those charged with governance.

If changes cannot be made to satisfy the practitioner as to those matters, the practitioner shall not accept the proposed engagement unless required by law or regulation to do so. However, an engagement conducted under such circumstances does not comply with this SRE. Accordingly, the practitioner shall not include any reference within the practitioner's report to the review having been conducted in accordance with this SRE.

If it is discovered after the engagement has been accepted that the practitioner is not satisfied as to any of the above preconditions, the practitioner shall discuss the matter with the management or those charged with governance and shall determine:

| (a) Whether the matter can be resolved | (b) Whether it is appropriate to continue with the engagement and | (c) Whether and, if so, how to communicate the matter in the practitioner's report. |
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## 2.4 Agreeing to the Terms of Engagement

The practitioner shall agree to the terms of the engagement with the management or those charged with governance, as appropriate, prior to performing the engagement. The agreed terms of engagement shall be recorded in an engagement letter or other suitable form of written agreement. On recurring review engagements, the practitioner shall evaluate whether circumstances, including changes in the engagement acceptance considerations, require the terms of engagement to be revised and whether there is a need to remind management or those charged with governance, as appropriate, of the existing terms of engagement.

The practitioner shall not agree to a change in the terms of the engagement where there is no reasonable justification for doing so. If, prior to completing the review engagement, the practitioner is requested to change the engagement to an engagement for which no assurance is obtained, the practitioner shall determine whether there is reasonable justification for doing so.

If the terms of engagement are changed during the course of the engagement, the practitioner and the management or those charged with governance, as appropriate, shall agree on and record the new terms of engagement in an engagement letter or any other suitable form of written agreement.

**Overview of performing the review engagement after its acceptance in accordance with SRE2400**

**Determine materiality for financial statements as a whole**

**Obtain understanding of entity and applicable financial reporting framework to identify areas of possible material misstatements**

**Design and perform "Inquiry" and "Analytical procedures"**

**Perform procedures to address specific circumstances**

**Perform other procedures, if necessary, in circumstances**

### (i) Materiality in a Review of Financial Statements

The practitioner shall determine materiality for the financial statements as a whole and apply this materiality in designing the procedures and in evaluating the results obtained from those procedures. The practitioner's judgment about what is material in relation to the financial statements as a whole is the same regardless of the level of assurance obtained by a practitioner as the basis for expressing the conclusion on the financial statements.

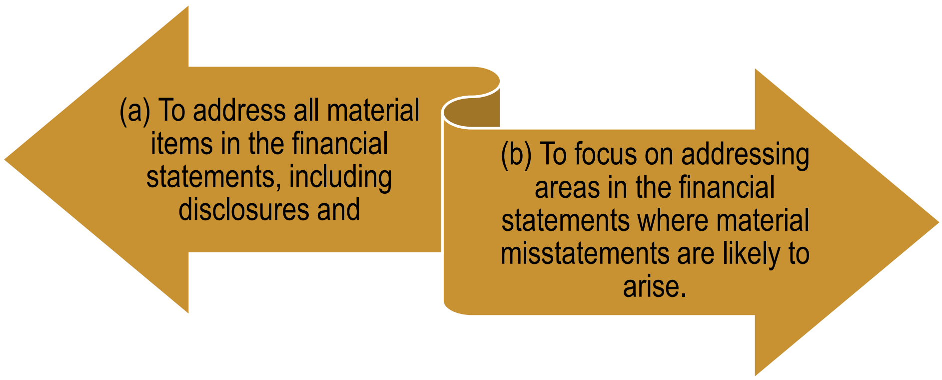
The practitioner shall revise materiality for the financial statements as a whole in the event of becoming aware of any information during the review that would have caused the practitioner to have determined a different amount initially.

### (ii) Obtaining Understanding of the Entity

The practitioner shall obtain an understanding of the entity and its environment and the applicable financial reporting framework to identify areas in the financial statements where material misstatements are likely to arise and thereby provide a basis for designing procedures to address those areas.

### (iii) Designing and Performing Procedures

In obtaining sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole, the practitioner shall design and perform inquiry and analytical procedures: -




The requirements relating to designing and performing of inquiry and analytical procedures, and procedures addressing specific circumstances, are designed to enable the practitioner to achieve the objectives of this SRE. The circumstances of review engagements vary widely and, accordingly, there may be circumstances where the practitioner may consider it effective or efficient to design and perform other procedures.

For example, if in the course of obtaining an understanding of the entity, the practitioner becomes aware of a significant contract the practitioner may choose to read the contract.

The fact that the practitioner may deem it necessary to perform other procedures does not alter the practitioner's objective of obtaining limited assurance in relation to the financial statements as a whole.

The practitioner may consider, reviewing the accounting records with a view to identifying significant or unusual transactions that may require specific attention in the review.

**(a)** **Inquiry:** In a review, inquiry includes seeking information from management and other persons within the entity, as the practitioner considers appropriate in the engagement circumstances.

Inquiries may include matters such as those relating to making of accounting estimates, identification of related parties, about significant, complex or unusual transactions, existence of any actual, suspected or alleged fraud, events occurring between the date of the financial statements and practitioner's report, basis for management's assessment of the entity's ability to continue as a going concern, events or conditions that appear to cast doubt on the entity's ability to continue as a going concern, material commitments, contractual obligations or contingencies that have affected or may affect the entity's financial statements including disclosures and material non-monetary transactions or transactions for no consideration in the financial reporting period under consideration.

The practitioner may also extend Inquiries to obtain non-financial data if appropriate. Evaluating the responses provided by the management is integral to the inquiry process.

| Depending on the engagement circumstances, inquiries may also include inquiries about: | | |
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| • Actions taken at meetings of owners, those charged with governance and committees thereof, and proceedings at other meetings, if any, that affect the information and disclosures contained in the financial statements. | • Communications the entity has received, or expects to receive or obtain, from regulatory agencies. | • Matters arising in the course of applying other procedures. |

When performing further inquiries in relation to identified inconsistencies, the practitioner considers the reasonableness and consistency of management's responses in light of the results obtained from other procedures, and the practitioner's knowledge and understanding of the entity and the industry in which it operates.

**(b)** **Analytical procedures:** In designing analytical procedures, the practitioner shall consider whether the data from the entity's accounting system and accounting records are adequate for the purpose of performing the analytical procedures.

In a review, the practitioner mainly focuses upon inquiry and analytical procedures for obtaining sufficient appropriate evidence as the basis for conclusion on financial statements as a whole.

**Why "Inquiry" and "Analytical procedures" are important in Review?**

Evidence obtained through inquiry is often the principal source of evidence about management intent. However, information available to support management's intent may be limited. In that case, understanding management's past history of carrying out its stated intentions, management's stated reasons for choosing a particular course of action, and management's ability to pursue a specific course of action may provide relevant information to corroborate the evidence obtained through inquiry. Application of professional skepticism in evaluating responses provided by management is important to enable the practitioner to evaluate whether there are any matters that would cause the practitioner to believe the financial statements may be materially misstated.

Performing inquiry procedures also assists the practitioner in obtaining or updating the practitioner's understanding of the entity and its environment, to be able to identify areas where material misstatements are likely to arise in the financial statements.

**In a review of financial statements, performing analytical procedures assists the practitioner in:**

- Obtaining or updating the practitioner's understanding of the entity and its environment, including to be able to identify areas where material misstatements are likely to arise in the financial statements.
- Identifying inconsistencies or variances from expected trends, values or norms in the financial statements such as the level of congruence of the financial statements with key data, including key performance indicators.
- Providing corroborative evidence in relation to other inquiries or analytical procedures already performed.
- Serving as additional procedures when the practitioner becomes aware of matters that cause the practitioner to believe that the financial statements may be materially misstated.

An example of such an additional procedure is a comparative analysis of monthly revenue and cost figures across profit centers, branches or other components of the entity, to provide evidence about financial information contained in line items or disclosures made in the financial statements.

Various methods may be used to perform analytical procedures ranging from performing simple comparisons to performing complex analysis using statistical techniques. The practitioner may, for example, apply analytical procedures to evaluate the financial information underlying the financial statements and assessment of results for consistency with expected values. Expectations may be developed by the practitioner on information obtained from relevant sources like information regarding the industry in which entity operates.

**(iv) Procedures to Address Specific Circumstances**

- ***Related parties:*** During the review, the practitioner shall remain alert for arrangements or information that may indicate the existence of related party relationships or transactions that the management has not previously identified or disclosed to the practitioner. If the practitioner identifies significant transactions outside the entity's normal course of business during the course of review, the practitioner shall inquire with the management about the nature of those transactions, possible involvement of related parties and the business rationale (or lack thereof) of those transactions.

- ***Fraud and non-compliance with laws or regulations:*** When there is an indication that fraud or non-compliance with laws or regulations, or suspected fraud or non-compliance with laws or regulations, has occurred in the entity, the practitioner shall communicate that matter to the appropriate level of senior management or those charged with governance as appropriate and request management's assessment of the effects, if any, on the financial statements.

  The practitioner has to consider the effect, if any, of management's assessment of the effects of fraud or non-compliance with laws or regulations communicated to him on his conclusion on the financial statements and on his report and determine whether there is a responsibility to report the occurrence or suspicion of fraud or illegal acts to a party outside the entity.

- ***Going concern:*** A review of financial statements includes consideration of the entity's ability to continue as a going concern. If, during the performance of the review, the practitioner becomes aware of events or conditions that may cast significant doubt about the entity's ability to continue as a going concern, the practitioner shall:

  (a) Inquire of management about plans for future actions affecting the entity's ability to continue as a going concern and about the feasibility of those plans, and also whether management believes that the outcome of those plans will improve the situation regarding the entity's ability to continue as a going concern.

(b) Evaluate the results of those inquiries, to consider whether management's responses provide a sufficient basis to: -

(i) Continue to present the financial statements on the going concern basis if the applicable financial reporting framework includes the assumption of an entity's continuance as a going concern; or

(ii) Conclude whether the financial statements are materially misstated, or are otherwise misleading regarding the entity's ability to continue as a going concern; and

(c) Consider management's responses in light of all relevant information of which the practitioner is aware as a result of the review.

- **Use of work performed by others:** In performing the review, it may be necessary for the practitioner to use work performed by other practitioners, or the work of an individual or organization possessing expertise in a field other than accounting or assurance. If the practitioner uses work performed by another practitioner or an expert in the course of performing the review, the practitioner shall take appropriate steps to be satisfied that the work performed is adequate for the practitioner's purposes.

  When the practitioner is engaged to review the financial statements of a group of entities, the planned nature, timing and extent of the procedures for the review are directed at achieving the practitioner's objectives for the review engagement in accordance with this Standard but in the context of the group financial statements.

**(v) Additional procedures when the practitioner becomes aware that the financial statements may be materially misstated:**

If the practitioner becomes aware of matters that causes the practitioner to believe that the financial statements may be materially misstated, the practitioner shall design and perform additional procedures sufficient to enable the practitioner to:

(a) Conclude that the matter(s) is not likely to cause the financial statements as a whole to be materially misstated or

(b) Determine that the matter(s) causes the financial statements as a whole to be materially misstated.

Additional procedures are required under this SRE if the practitioner becomes aware of a matter that causes the practitioner to believe the financial statements may be materially misstated. The practitioner's response in undertaking additional procedures with respect to an item the practitioner has cause to believe may be materially misstated in the financial statements will vary, depending on the circumstances, and is a matter for the practitioner's professional judgment.

| Additional procedures focus on obtaining sufficient appropriate evidence to enable the practitioner to form a conclusion on matters that the practitioner believes may cause the financial statements to be materially misstated. The procedures may be: |
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| • Additional inquiry or analytical procedures, for example, being performed in greater detail or being focused on the affected items (i.e. amounts or disclosures concerning the affected accounts or transactions as reflected in the financial statements); or |
| • Other types of procedures, for example, substantive test of details or external confirmations. |

**Example explaining when additional procedures may be necessary in Review**

In course of performing inquiry and analytical procedures for review, analysis of accounts receivable shows a material amount of past due accounts receivable, for which there is no allowance for bad or doubtful debts. This causes the practitioner to believe that the accounts receivable balance in the financial statements may be materially misstated. The practitioner then inquire of management whether there are uncollectible accounts receivable that would need to be shown as being impaired.

**Depending on management's response, the practitioner's evaluation of the response may:**

**(a)** Enable the practitioner to conclude that the accounts receivable balance is not likely to be materially misstated. In that case, no further procedures are required.

**(b)** Enable the practitioner to determine that the matter causes the financial statements to be materially misstated. No further procedures are required, and the practitioner would form the conclusion that the financial statements as a whole are materially misstated.

**(c)** Lead the practitioner to continue to believe that the accounts receivable balance is likely to be materially misstated, while not providing sufficient appropriate evidence for the practitioner to determine that they are in fact misstated.

In that case, the practitioner is required to perform additional procedures, for example, requesting from management an analysis of amounts received for those accounts after the balance sheet date to identify uncollectible accounts receivable.

The evaluation of the results of the additional procedures may enable the practitioner to get to (a) or (b) above.

**If not, the practitioner is required to: -**

**(i)** Continue performing additional procedures until the practitioner reaches either (a) or (b) above or

**(ii)** If the practitioner is not able to either conclude that the matter is not likely to cause the financial statements as a whole to be materially misstated or to determine that the matter does cause the financial statements as a whole to be materially misstated, then a scope limitation exists, and the practitioner is not able to form an unmodified conclusion on the financial statements.

If the practitioner becomes aware of events occurring between the date of the financial statements and the date of the practitioner's report that require adjustment of, or disclosure in, the financial statements, the practitioner shall request management to correct those misstatements.

The practitioner has no obligation to perform any procedures regarding the financial statements after the date of the practitioner's report. However, if, after the date of the practitioner's report but before the date the financial statements are issued, a fact becomes known to the practitioner that, had it been known to the practitioner at the date of the practitioner's report, may have caused the practitioner to amend the report, the practitioner shall: -

(a) Discuss the matter with management or those charged with governance, as appropriate

(b) Determine whether the financial statements need amendment and

(c) If so, inquire how management intends to address the matter in the financial statements.

If management does not amend the financial statements in circumstances where the practitioner believes they need to be amended, and the practitioner's report has already been provided to the entity, the practitioner shall notify management and those charged with governance not to issue the financial statements to third parties before the necessary amendments have been made. If the financial statements are nevertheless subsequently issued without the necessary amendments, the practitioner shall take appropriate action k to prevent reliance on the practitioner's report.

## (vi) Written Representations

Written representations are an important source of evidence in a review engagement. If management modifies or does not provide the requested written representations, it may alert the practitioner to the possibility that one or more significant issues may exist. Further, a request for written, rather than oral, representations in many cases may prompt management to consider such matters more rigorously, thereby enhancing the quality of the representations.

| **The practitioner shall request management to provide a written representation that management has fulfilled its responsibilities described in the agreed terms of engagement. The written representation shall include that: -** |
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| (a) Management has fulfilled its responsibility for the preparation of financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, and has provided the practitioner with all relevant information and access to information as agreed in the terms of the engagement; and |
| (b) All transactions have been recorded and are reflected in the financial statements. |

If law or regulation requires management to make written public statements about its responsibilities, and the practitioner determines that such statements provide some or all of the representations required above, the relevant matters covered by such statements need not be included in the written representation.

In addition to the written representations required under this SRE, the practitioner may consider it necessary to request other written representations about the financial statements. These may be needed, for example, to complete the practitioner's evidence with respect to certain items or disclosures reflected in the financial statements where the practitioner considers such representations to be important in forming a conclusion on the financial statements on either a modified or unmodified basis.

| **The practitioner shall also request management's written representations that management has disclosed to the practitioner: -** |
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| (a) The identity of the entity's related parties and all the related party relationships and transactions of which management is aware; |
| (b) Significant facts relating to any frauds or suspected frauds known to management that may have affected the entity; |
| (c) Known actual or possible non-compliance with laws and regulations for which the effects of non-compliance affect the entity's financial statements; |
| (d) All information relevant to use of the going concern assumption in the financial statements; |

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|---|---|
| (e) | That all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure, have been adjusted or disclosed; |
| (f) | Material commitments, contractual obligations or contingencies that have affected or may affect the entity's financial statements, including disclosures; |
| (g) | Material non-monetary transactions or transactions for no consideration undertaken by the entity in the financial reporting period under consideration. |

**If management does not provide one or more of the requested written representations, the practitioner shall: -**

**(a) Discuss the matter with management and those charged with governance, as appropriate;**

**(b) Re-evaluate the integrity of management, and evaluate the effect that this may have on the reliability of representations (oral or written) and evidence in general; and**

**(c) Take appropriate actions, including determining the possible effect on the conclusion in the practitioner's report in accordance with this SRE.**

**The practitioner shall disclaim a conclusion on the financial statements, or withdraw from the engagement if withdrawal is possible under applicable law or regulation, as appropriate, if: -**

(a) The practitioner concludes that there is sufficient doubt about the integrity of management such that the written representations are not reliable or

(b) Management does not provide the required representations in respect of its responsibilities for preparation of financial statements and recording of all transactions in financial statements.

### (vii) Evaluating evidence obtained from the procedures performed

The practitioner shall evaluate whether sufficient appropriate evidence has been obtained from the procedures performed and, if not, the practitioner shall perform other procedures judged by the practitioner to be necessary in the circumstances to be able to form a conclusion on the financial statements.

In some circumstances, the practitioner may not have obtained the evidence that the practitioner had expected to obtain through the design of primarily inquiry and analytical procedures and procedures addressing specific circumstances.

In these circumstances, the practitioner considers that the evidence obtained from the procedures performed is not sufficient and appropriate to be able to form a conclusion on the financial statements.

| **The practitioner may:** |
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| • Extend the work performed or |
| • Perform other procedures judged by the practitioner to be necessary in the circumstances. |

Where neither of these is practicable in the circumstances, the practitioner will not be able to obtain sufficient appropriate evidence to be able to form a conclusion and is required by this SRE to determine the effect on the practitioner's report, or on the practitioner's ability to complete the engagement, for example, if a member of management is unavailable at the time of the review to respond to the practitioner's inquiries on significant matters.

If the practitioner is not able to obtain sufficient appropriate evidence to form a conclusion, the practitioner shall discuss with management and those charged with governance, as appropriate, the effects such limitations have on the scope of the review.

Inability to perform a specific procedure does not constitute a limitation on the scope of the review if the practitioner is able to obtain sufficient appropriate evidence by performing other procedures. Limitations on the scope of the review imposed by management may have other implications for the review, such as for the practitioner's consideration of areas where the financial statements are likely to be materially misstated, and engagement continuance.

### (viii) Forming the practitioner's conclusion on the financial statements

In forming conclusion, the practitioner shall also consider the impact of: -

(a) Uncorrected misstatements identified during the review, and in the previous year's review of the entity's financial statements, on the financial statements as a whole

(b) Qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments.

| **If the financial statements are prepared using a fair presentation framework, the practitioner's consideration shall also include: -** |
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| (a) The overall presentation, structure and content of the financial statements in accordance with the applicable framework and |

(b) Whether the financial statements, including the related notes, appear to represent the underlying transactions and events in a manner that achieves fair presentation or gives a true and fair view, as appropriate, in the context of the financial statements as a whole.

The practitioner's conclusion on the financial statements, whether unmodified or modified, shall be expressed in the appropriate form in the context of the financial reporting framework applied in the financial statements.

**Unmodified Conclusion:** The practitioner shall express an unmodified conclusion in the practitioner's report on the financial statements as a whole when the practitioner has obtained limited assurance to be able to conclude that nothing has come to the practitioner's attention that causes the practitioner to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework.

When the practitioner expresses an unmodified conclusion, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate: -

***(a) "Based on our review, nothing has come to our attention that causes us to believe that the financial statements do not give a true and fair view (or do not present fairly, in all material respects), in accordance with the applicable financial reporting framework," (for financial statements prepared using a fair presentation framework); or***

***(b) "Based on our review, nothing has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework," (for financial statements prepared using a compliance framework).***

**Modified Conclusion:** The practitioner shall express a modified conclusion in the practitioner's report on the financial statements as a whole when:

**(a) The practitioner determines, based on the procedures performed and the evidence obtained, that the financial statements are materially misstated or**

**(b) The practitioner is unable to obtain sufficient and appropriate evidence in relation to one or more items in the financial statements that are material in relation to the financial statements as a whole.**

**When the practitioner modifies the conclusion expressed on the financial statements, the practitioner shall:**

**(a) Use the heading "Qualified Conclusion," "Adverse Conclusion" or "Disclaimer of Conclusion," as appropriate, for the conclusion paragraph in the practitioner's report and**

**(b) Provide a description of the matter giving rise to the modification, under an appropriate heading (for example, "Basis for Qualified Conclusion," "Basis for Adverse Conclusion" or "Basis for Disclaimer of Conclusion," as appropriate) in a separate paragraph in the practitioner's report immediately before the conclusion paragraph (referred to as the basis for conclusion paragraph).**

**Financial statements are materially misstated.**

| **If the practitioner determines that the financial statements are materially misstated, the practitioner shall express** | |
|---|---|
| (a) A qualified conclusion, when the practitioner concludes that the effects of the matter(s) giving rise to the modification are material, but not pervasive to the financial statements; or | (b) An adverse conclusion, when the effects of the matter(s) giving rise to the modification are both material and pervasive to the financial statements. |

**When the practitioner expresses a qualified conclusion on the financial statements because of a material misstatement, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate: -**

*(a) "Based on our review, except for the effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements do not give a true and fair view (or do not present fairly, in all material respects), in accordance with the applicable financial reporting framework," (for financial statements prepared using a fair presentation framework) or*

*(b) "Based on our review, except for the effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework," (for financial statements prepared using a compliance framework).*

When the practitioner expresses **an adverse conclusion** on the financial statements, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate:

**(a) "Based on our review, due to the significance of the matter(s) described in the Basis for Adverse Conclusion paragraph, the financial statements do not give a true and fair view (or do not present fairly, in all material respects), in accordance with the applicable financial reporting framework," (for financial statements prepared using a fair presentation framework); or**

**(b) "Based on our review, due to the significance of the matter(s) described in the Basis for Adverse Conclusion paragraph, the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework," (for financial statements prepared using a compliance framework).**

| In the basis for conclusion paragraph, in relation to material misstatements that give rise to either a qualified conclusion or an adverse conclusion, the practitioner shall: - |
|---|
| (a) Describe and quantify the financial effects of the misstatement if the material misstatement relates to specific amounts in the financial statements (including quantitative disclosures), unless impracticable, in which case the practitioner shall so state; |
| (b) Explain how disclosures are misstated if the material misstatement relates to narrative disclosures; or |
| (c) Describe the nature of omitted information if the material misstatement relates to the non-disclosure of information required to be disclosed. Unless prohibited by law or regulation, the practitioner shall include the omitted disclosures where practicable to do so. |
| **Narrative accounting disclosures are an integral part of the corporate financial reporting package. They are deemed to provide a view of the company "through the eyes of management". The narratives represent management's construal of corporate events and are largely discretionary.** |

**Inability to obtain sufficient and appropriate evidence:**

If the practitioner is unable to form a conclusion on the financial statements due to the inability to obtain sufficient appropriate and evidence, the practitioner shall:

| | |
|---|---|
| (a) | Express a qualified conclusion if the practitioner concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive or |
| (b) | Disclaim a conclusion if the practitioner concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. |

| The practitioner shall withdraw from the engagement if the following conditions are present | | |
|---|---|---|
| (a) Due to a limitation on the scope of the review imposed by management after the practitioner has accepted the engagement, the practitioner is unable to obtain sufficient appropriate and evidence to form a conclusion on the financial statements; | (b) The practitioner has determined that the possible effects on the financial statements of undetected misstatements are material and pervasive; and | (c) Withdrawal is possible under applicable law or regulation. |

**When the practitioner expresses a qualified conclusion on the financial statements due to inability to obtain sufficient and appropriate evidence, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate:**

*(a) "Based on our review, except for the possible effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements do not give a true and fair view (or do not present fairly, in all material respects) in accordance with the applicable financial reporting framework," (for financial statements prepared using a fair presentation framework); or*

*(b) "Based on our review, except for the possible effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework," (for financial statements prepared using a compliance framework).*

| When disclaiming a conclusion on the financial statements the practitioner shall state in the conclusion paragraph that: | |
|---|---|
| (a) | Due to the significance of the matter(s) described in the Basis for Disclaimer of Conclusion paragraph, the practitioner is unable to obtain sufficient appropriate evidence to form a conclusion on the financial statements; and |
| (b) | Accordingly, the practitioner does not express a conclusion on the financial statements. |

In the basis for conclusion paragraph, in relation to either the qualified conclusion due to inability of obtaining sufficient and appropriate evidence or when the practitioner disclaims a conclusion, the practitioner shall include the reason(s) for the inability to obtain sufficient and appropriate evidence.

## (ix) The Practitioner's Report

The practitioner's report for the review engagement shall be in writing and shall contain the following elements: -

**(a)** A title, which shall clearly indicate that it is the report of an independent practitioner for a review engagement;

**(b)** The addressee(s), as required by the circumstances of the engagement;

**(c)** **An introductory paragraph that:**

(1) Identifies the financial statements reviewed, including identification of the title of each of the statements contained in the set of financial statements and the date and period covered by each financial statement;

(2) Refers to the summary of significant accounting policies and other explanatory information; and

(3) States that the financial statements have been reviewed;

**(d)** **A description of the responsibility of management for the preparation of the financial statements, including an explanation that management is responsible for:**

(1) Their preparation in accordance with the applicable financial reporting framework including, where relevant, their fair presentation;

(2) Such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

**(e)** **If the financial statements are special purpose financial statements:**

(1) A description of the purpose for which the financial statements are prepared and, if necessary, the intended users, or reference to a note in the special purpose financial statements that contains that information; and

(2) If management has a choice of financial reporting frameworks in the preparation of such financial statements, a reference within the explanation of management's responsibility for the financial statements to management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances;

**(f)** A description of the practitioner's responsibility to express a conclusion on the financial statements including reference to this SRE and, where relevant, applicable law or regulation;

**(g) A description of a review of financial statements and its limitations, and the following statements:**

(1) A review engagement under this SRE is a limited assurance engagement;

(2) The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained; and

(3) The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Standards on Auditing (SAs), and, accordingly, the practitioner does not express an audit opinion on the financial statements;

**(h) A paragraph under the heading "Conclusion" that contains:**

(1) The practitioner's conclusion on the financial statements as a whole as appropriate; and

(2) A reference to the applicable financial reporting framework used to prepare the financial statements;

**(i) When the practitioner's conclusion on the financial statements is modified:**

(1) A paragraph under the appropriate heading that contains the practitioner's modified conclusion as appropriate; and

(2) A paragraph, under an appropriate heading, that provides a description of the matter(s) giving rise to the modification;

**(j)** A reference to the practitioner's obligation under this SRE to comply with relevant ethical requirements;

**(k) The date of the practitioner's report:** The practitioner shall date the report no earlier than the date on which the practitioner has obtained sufficient appropriate evidence as the basis for the practitioner's conclusion on the financial statements, including being satisfied that: -

(1) All the statements that comprise the financial statements under the applicable financial reporting framework, including the related notes where applicable, have been prepared; and

(2) Those with the recognized authority have asserted that they have taken responsibility for those financial statements;

**(l)** The practitioner's signature; and

**(m)** The place of signature.

## 2.5 Emphasis of Matter and Other Matter Paragraphs in the Practitioner's Report

The practitioner may consider it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the practitioner's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. In such cases, the practitioner shall include an Emphasis of Matter paragraph in the practitioner's report, provided the practitioner has obtained sufficient appropriate evidence to conclude that the matter is not likely to be materially misstated as presented in the financial statements. Such paragraph shall refer only to the information presented or disclosed in the financial statements.

The practitioner shall include an Emphasis of Matter paragraph immediately after the paragraph that contains the practitioner's conclusion on the financial statements under the heading "Emphasis of Matter," or other appropriate heading.

If the practitioner considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the practitioner's judgment, is relevant to users' understanding of the review, the practitioner's responsibilities or the practitioner's report and this is not prohibited by law or regulation, the practitioner shall do so in a paragraph in the practitioner's report with the heading "Other Matter" or other appropriate heading.

## 2.6 Other Reporting Responsibilities

A practitioner may be requested to address other reporting responsibilities in the practitioner's report on the financial statements that are in addition to the practitioner's responsibilities under this SRE to report on the financial statements. In such situations, those other reporting responsibilities shall be addressed by the practitioner in a separate section in the practitioner's report headed "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the context of the section, following the section of the report headed "Report on the Financial Statements."

## 2.7 Documentation

The preparation of documentation for the review provides evidence that the review was performed in accordance with this SRE along with legal and regulatory requirements where relevant and a sufficient and appropriate record of the basis for the practitioner's report.

| The practitioner shall document the following aspects of the engagement in a timely manner, sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand: | |
|---|---|
| (a) | The nature, timing, and extent of the procedures performed to comply with this SRE and applicable legal and regulatory requirements; |
| (b) | Results obtained from the procedures, and the practitioner's conclusions formed on the basis of those results; and |
| (c) | Significant matters arising during the engagement, the practitioner's conclusions reached thereon, and significant professional judgments made in reaching those conclusions. |

**While documenting the nature, timing and extent of procedures performed as required in this SRE, the practitioner shall record:**

(a) Who performed the work and the date such work was completed and

(b) Who reviewed the work performed for the purpose of quality control for the engagement, and the period and extent of the review.

The practitioner shall also document discussions with the management, those charged with governance, and others as relevant to the performance of the review of significant matters arising during the engagement, including the nature of those matters.

If, in the course of the engagement, the practitioner identified information that is inconsistent with the practitioner's findings regarding significant matters affecting the financial statements, the practitioner shall document how the inconsistency was addressed.

## 2.8 Audit Vs. Review

An audit engagement has many similarities with a review engagement. However, there are certain important areas of distinction relating to the nature of engagement, its performance, objective and reporting highlighted under: -

**Overview of distinctive areas between Audit and Review**

| ***Audit*** | ***Review*** |
|---|---|
| Audit is a type of reasonable assurance engagement providing reasonable level of assurance. | Review is a type of limited assurance engagement providing a lower level of assurance than reasonable assurance engagement. |
| It performs elaborate and extensive procedures including tests of controls and substantive procedures. | It performs fewer procedures primarily focusing on inquiry and analytical procedures. |
| It draws reasonable conclusions on the basis of sufficient appropriate evidence. | It draws limited conclusions on the basis of sufficient appropriate evidence. |
| It provides an assurance opinion. The language of assurance opinion is positively worded. | It provides an assurance conclusion. The language of assurance conclusion is negatively worded. |

**TEST YOUR UNDERSTANDING 2**

You are conducting a review of the financial statements of a company. It is gathered upon inquiry that there is a possibility of material misstatements in the financial statements. Discuss how you would proceed further in the matter under SRE 2400.

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

SRE 2410 deals with the auditor's professional responsibilities when the auditor undertakes an engagement to review the interim financial information of an audit client and on the form and content of the report. In other words, SRE 2410 applies when review of interim financial information is performed by the independent auditor of the financial statements of the entity.

**What is Interim Financial Information?**

Interim financial information is financial information that is prepared and presented in accordance with an applicable financial reporting framework and comprises either a complete or a condensed set of financial statements *for a period that is shorter than the entity's financial year.* For example, interim financial information may relate to financial statements of a quarter of the financial year.

## 3.1 Objective of an Engagement to Review Interim Financial Information in Accordance with SRE 2410

The objective of an engagement to review interim financial information is to enable the auditor to express a conclusion whether, on the basis of the review, anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with an applicable financial reporting framework. The auditor makes inquiries and performs analytical and other review procedures in order to reduce to a moderate level risk of expressing an inappropriate conclusion when the interim financial information is materially misstated.

The objective of a review of interim financial information differs significantly from that of an audit conducted in accordance with Standards on Auditing (SAs). A review of interim financial information does not provide a basis for expressing an opinion on whether the financial information gives a true and fair view, or is presented fairly, in all material respects, in accordance with an applicable financial reporting framework.

A review, in contrast to an audit, is not designed to obtain reasonable assurance that the interim financial information is free from material misstatement. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review may bring significant matters affecting the interim financial information to the auditor's attention, but it does not provide all of the evidence that would be required in an audit.

SRE 2410 applies when review of interim financial information is performed by the independent auditor of the financial statements of the entity.

## 3.2 Agreeing the Terms of the Engagement

The auditor and the client should agree on the terms of the engagement. The agreed terms of the engagement are ordinarily recorded in an engagement letter. Such communication helps to avoid misunderstandings regarding the nature of the engagement and, in particular, the objective and scope of the review, management's responsibilities, the extent of the auditor's responsibilities, the assurance obtained, and the nature and form of the report.

## 3.3 Understanding the Entity and its Environment including its Internal Control

The auditor should have an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both annual and interim financial information, sufficient to plan and conduct the engagement so as to be able to:

**(a) Identify the types of potential material misstatement and consider the likelihood of their occurrence and**

**(b) Select the inquiries, analytical and other review procedures that will provide the auditor with a basis for reporting whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework.**

The auditor who has audited the entity's financial statements for one or more annual periods has obtained an understanding of the entity and its environment, including its internal control, as it relates to the preparation of annual financial information that was sufficient to conduct the audit.

*In planning a review of interim financial information, the auditor updates this understanding. The auditor also obtains a sufficient understanding of internal control as it relates to the preparation of interim financial information as it may differ from internal control as it relates to annual financial information.*

**Some of the procedures performed by the auditor to update the understanding of the entity and its environment, including its internal control, ordinarily include the following:**

- Reading the documentation, to the extent necessary, of the preceding year's audit and reviews of prior interim period(s) of the current year and corresponding interim period(s) of the prior year, to enable the auditor to identify matters that may affect the current-period interim financial information.
- Considering any significant risks, including the risk of management override of controls, that were identified in the audit of the prior year's financial statements.
- Reading the most recent annual and comparable prior period interim financial information.

- Considering materiality with reference to the applicable financial reporting framework as it relates to interim financial information to assist in determining the nature and extent of the procedures to be performed and evaluating the effect of misstatements.
- Considering the nature of any corrected material misstatements and any identified uncorrected immaterial misstatements in the prior year's financial statements.
- Considering significant financial accounting and reporting matters that may be of continuing significance such as material weaknesses in internal control.
- Considering the results of any audit procedures performed with respect to the current year's financial statements.
- Considering the results of any internal audit performed and the subsequent actions taken by the management.
- Inquiring of management about the results of management's assessment of the risk that the interim financial information may be materially misstated as a result of fraud.
- Inquiring of management about the effect of changes in the entity's business activities.
- Inquiring of management about any significant changes in internal control and the potential effect of any such changes on the preparation of interim financial information.
- Inquiring of management of the process by which the interim financial information has been prepared and the reliability of the underlying accounting records to which the interim financial information is agreed or reconciled.

In order to plan and conduct a review of interim financial information, *a recently appointed auditor, who has not yet performed an audit of the annual financial statements in accordance with SAs,* should obtain an understanding of the entity and its environment, including of its internal control, as it relates to the preparation of both annual and interim financial information.

Besides, the auditor determines the nature of the review procedures, if any, to be performed for components and, where applicable, communicates these matters to other auditors involved in the review.

## 3.4 Inquiries, Analytical and other Review procedures

The auditor should make inquiries, primarily of persons responsible for financial and accounting matters, and perform analytical and other review procedures to enable the auditor to conclude whether, on the basis of the procedures performed, anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework.

A review ordinarily does not require tests of the accounting records through inspection, observation or confirmation. Procedures for performing a review of interim financial information are ordinarily limited to making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures, rather than corroborating information obtained concerning significant accounting matters relating to the interim financial information.

The auditor's understanding of the entity and its environment including its internal control, the results of the risk assessments relating to the preceding audit and the auditor's consideration of materiality as it relates to the interim financial information, affects the nature and extent of the inquiries made, and analytical and other review procedures applied.

**The auditor ordinarily performs the following procedures: -**

- Reading the minutes of the meetings of shareholders, those charged with governance, and other appropriate committees to identify matters that may affect the interim financial information, and inquiring about matters dealt with at meetings for which minutes are not available that may affect the interim financial information.
- Considering the effect, if any, of matters giving rise to a modification of the audit or review report, accounting adjustments or unadjusted misstatements, at the time of the previous audit or reviews.
- Communicating, where appropriate, with other auditors who are performing a review of the interim financial information of the reporting entity's significant components.
- Inquiring of members of management responsible for financial and accounting matters, and others as appropriate about the following:
    - ♦ Whether the interim financial information has been prepared and presented in accordance with the applicable financial reporting framework.
    - ♦ Whether there have been any changes in accounting principles or in the methods of applying them.
    - ♦ Whether any new transactions have necessitated the application of a new accounting principle.
    - ♦ Whether the interim financial information contains any known uncorrected misstatements.

- ♦ Unusual or complex situations that may have affected the interim financial information, such as a business combination or disposal of a segment of the business.
- ♦ Significant assumptions that are relevant to the fair value measurement or disclosures and management's intention and ability to carry out specific courses of action on behalf of the entity.
- ♦ Whether related party transactions have been appropriately accounted for and disclosed in the interim financial information.
- ♦ Significant changes in commitments and contractual obligations.
- ♦ Significant changes in contingent liabilities including litigation or claims.
- ♦ Compliance with debt covenants.
- ♦ Matters about which questions have arisen in the course of applying the review procedures.
- ♦ Significant transactions occurring in the last several days of the interim period or the first several days of the next interim period.
- ♦ Knowledge of any fraud or suspected fraud affecting the entity involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the interim financial information.
- ♦ Knowledge of any allegations of fraud, or suspected fraud, affecting the entity's interim financial information communicated by employees, former employees, analysts, regulators, or others.
- ♦ Knowledge of any actual or possible non-compliance with laws and regulations that could have a material effect on the interim financial information.

- Applying analytical procedures to the interim financial information designed to identify relationships and individual items that appear to be unusual and that may reflect a material misstatement in the interim financial information.
- Reading the interim financial information, and considering whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework.

The auditor may perform many of the review procedures before or simultaneously with the entity's preparation of the interim financial information. For example, it may be practicable to update the understanding of the entity and its environment, including its internal control, and begin reading applicable minutes before the end of the interim period.

Performing some of the review procedures earlier in the interim period also permits early identification and consideration of significant accounting matters affecting the interim financial information.

The auditor performing the review of interim financial information is also engaged to perform an audit of the annual financial statements of the entity. For convenience and efficiency, the auditor may decide to perform certain audit procedures concurrently with the review of interim financial information.

A review of interim financial information ordinarily does not require corroborating the inquiries about litigation or claims. It is, therefore, ordinarily not necessary to send an inquiry letter to the entity's lawyer. Direct communication with the entity's lawyer with respect to litigation or claims may, however, be appropriate if a matter comes to the auditor's attention that causes the auditor to question whether the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework, and the auditor believes the entity's lawyer may have pertinent information.

| The auditor may obtain evidence that the interim financial information agrees or reconciles with the underlying accounting records by tracing the interim financial information to: | |
|---|---|
| (a) | The accounting records, such as the general ledger, or a consolidating schedule that agrees or reconciles with the accounting records; and |
| (b) | Other supporting data in the entity's records as necessary. |

The auditor should inquire whether management has identified all events up to the date of the review report that may require adjustment to or disclosure in the interim financial information. It is not necessary for the auditor to perform other procedures to identify events occurring after the date of the review report.

The auditor should inquire whether management has changed its assessment of the entity's ability to continue as a going concern. When, as a result of this inquiry or other review procedures, the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor should:

**(a) Inquire of management as to its plans for future actions based on its going concern assessment, the feasibility of these plans, and whether management believes that the outcome of these plans will improve the situation and**

**(b) Consider the adequacy of the disclosure about such matters in the interim financial information.**

Events or conditions which may cast significant doubt on the entity's ability to continue as a going concern may have existed at the date of the annual financial statements or may be identified as a result of inquiries of management or in the course of performing other review procedures.

When such events or conditions come to the auditor's attention, the auditor inquires of management as to its plans for future action, such as its plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital. The auditor also inquires as to the feasibility of management's plans and whether management believes that the outcome of these plans will improve the situation. *However, it is not ordinarily necessary for the auditor to corroborate the feasibility of management's plans and whether the outcome of these plans will improve the situation.*

When a matter comes to the auditor's attention that leads the auditor to question whether a material adjustment should be made for the interim financial information to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor should make additional inquiries or perform other procedures to enable the auditor to express a conclusion in the review report.

For example, if the auditor's review procedures lead the auditor to question whether a significant sales transaction is recorded in accordance with the applicable financial reporting framework, the auditor performs additional procedures sufficient to resolve the auditor's questions, such as discussing the terms of the transaction with senior marketing and accounting personnel, or reading the sales contract.

## 3.5 Evaluation of Misstatements

The auditor should evaluate, individually and in the aggregate, whether uncorrected misstatements that have come to the auditor's attention are material to the interim financial information.

Misstatements which come to the auditor's attention, including inadequate disclosures, are evaluated individually and in the aggregate to determine whether a material adjustment is required to be made to the interim financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.

The auditor exercises professional judgment in evaluating the materiality of any misstatements that the entity has not corrected.

## 3.6 Management representations

**The auditor should obtain written representation from management that: -**

**(a) It acknowledges its responsibility for the design and implementation of internal control to prevent and detect fraud and error**

**(b) The interim financial information is prepared and presented in accordance with the applicable financial reporting framework**

**(c) It believes the effect of those uncorrected misstatements aggregated by the auditor during the review are immaterial, both individually and in the aggregate, to the interim financial information taken as a whole. A summary of such items is included in or attached to the written representations**

**(d) It has disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to management that may have affected the entity**

**(e) It has disclosed to the auditor the results of its assessment of the risks that the interim financial information may be materially misstated as a result of fraud**

**(f) It has disclosed to the auditor all known actual or possible non-compliance with laws and regulations whose effects are to be considered when preparing the interim financial information; and**

**(g) It has disclosed to the auditor all significant events that have occurred subsequent to the balance sheet date and through to the date of the review report that may require adjustment to or disclosure in the interim financial information.**

## 3.7 Auditor's Responsibility for Accompanying Information

The auditor should read the other information that accompanies the interim financial information to consider whether any such information is materially inconsistent with the interim financial information.

If the auditor identifies a material inconsistency, the auditor considers whether the interim financial information or the other information needs to be amended. If an amendment is necessary in the interim financial information and management refuses to make such amendment, the auditor considers the implications for the review report.

If an amendment is necessary in the other information and management refuses to make such amendment, the auditor considers including in the review report an additional paragraph describing the material inconsistency, or taking other actions, such as withholding the issuance of the review report or withdrawing from the engagement. For example, management may present alternative measures of earnings that more positively portray results of operations than the interim financial information, and such alternative measures are given excessive prominence, are not clearly defined, or not clearly reconciled to the interim financial information such that they are confusing and potentially misleading.

If a matter comes to the auditor's attention that causes the auditor to believe that the other information appears to include a material misstatement of fact, the auditor should discuss the matter with the entity's management.

While reading the other information for the purpose of identifying material inconsistencies, an apparent material misstatement of fact may come to the auditor's attention (i.e., information, not related to matters appearing in the interim financial information, that is incorrectly stated or presented). When discussing the matter with the entity's management, the auditor considers the validity of the other information and management's responses to the auditor's inquiries, whether valid differences of judgment or opinion exist and whether to request management to consult with a qualified third party to resolve the apparent misstatement of fact.

If an amendment is necessary to correct a material misstatement of fact and management refuses to make the amendment, the auditor considers taking further action as appropriate, such as notifying those charged with governance and obtaining a legal advice.

## 3.8 Communication

When, as a result of performing the review of interim financial information, a matter comes to the auditor's attention that causes the auditor to believe that it is necessary to make a material adjustment to the interim financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor should communicate this matter as soon as practicable to the appropriate level of management.

When, in the auditor's judgment, management does not respond appropriately within a reasonable period of time, the auditor should inform those charged with governance. The communication is made as soon as practicable, either orally or in writing. The auditor's decision whether to communicate orally or in writing is affected by factors such as the nature, sensitivity and significance of the matter to be communicated and the timing of such communications. If the information is communicated orally, the auditor documents the communication.

| When, in the auditor's judgment, those charged with governance do not respond appropriately within a reasonable period, the auditor should consider | | |
|---|---|---|
| **(a) Whether to modify the report or** | **(b) The possibility of withdrawing from the engagement and** | **(c) The possibility of resigning from the appointment to audit the annual financial statements.** |

When, as a result of performing the review of interim financial information, a matter comes to the auditor's attention that causes the auditor to believe in the existence of fraud or noncompliance by the entity with laws and regulations, the auditor should communicate the matter as soon as practicable to the appropriate level of management. The determination of which level of management is the appropriate one is affected by the likelihood of collusion or the involvement of a member of management. The auditor also considers the need to report such matters to those charged with governance and considers the implication for the review.

The auditor should communicate relevant matters of governance interest arising from the review of interim financial information with those charged with governance. As a result of performing the review of the interim financial information, the auditor may become aware of matters that in the opinion of the auditor are both important and relevant to those charged with governance in overseeing the financial reporting and disclosure process. The auditor communicates such matters to those charged with governance.

## 3.9 Reporting the Nature, Extent and Results of the Review of Interim Financial Information

The auditor should issue a written report that contains the following: -

| **Content of Written Report:** | |
|---|---|
| (a) | An appropriate title. |
| (b) | An addressee, as required by the circumstances of the engagement. |
| (c) | Identification of the interim financial information reviewed, including identification of the title of each of the statements contained in the complete or condensed set of financial statements and the date and period covered by the interim financial information. |

(d) If the interim financial information comprises a complete set of general-purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a statement that management is responsible for the preparation and fair presentation of the interim financial information in accordance with the applicable financial reporting framework.

(e) In other circumstances, a statement that management is responsible for the preparation and presentation of the interim financial information in accordance with the applicable financial reporting framework.

(f) A statement that the auditor is responsible for expressing a conclusion on the interim financial information based on the review.

(g) A statement that the review of the interim financial information was conducted in accordance with Standard on Review Engagements (SRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity," and a statement that that such a review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

(h) A statement that a review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable the auditor to obtain assurance that the auditor would become aware of all significant matters that might be identified in an audit and that accordingly no audit opinion is expressed.

(i) If the interim financial information comprises a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information does not give a true and fair view, or does not present fairly, in all material respects, in accordance with the applicable financial reporting framework.

(j) In other circumstances, a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework

(k) The date of the report.

(l) Place of Signature.

(m) The auditor's signature and membership number assigned by the Institute of Chartered Accountants of India (ICAI).

(n) The Firm's registration number of the member of the Institute, wherever applicable, as allotted by ICAI.

Besides, UDIN has also to be generated and stated for review engagement as it is also in nature of an assurance engagement. UDIN has to be stated for engagements performed in accordance with SRE 2400 or SRE 2410.

## 3.10 Departure from the Applicable Financial Reporting Framework

The auditor should express qualified or adverse conclusion when a matter has come to the auditor's attention that causes the auditor to believe that a material adjustment should be made to the interim financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.

If matters have come to the auditor's attention that cause the auditor to believe that the interim financial information is or may be materially affected by a departure from the applicable financial reporting framework, and management does not correct the interim financial information, the auditor modifies the review report.

The modification describes the nature of the departure and, if practicable, states the effects on the interim financial information. If the information that the auditor believes is necessary for adequate disclosure is not included in the interim financial information, the auditor modifies the review report and, if practicable, includes the necessary information in the review report. The modification to the review report is ordinarily accomplished by adding an explanatory paragraph to the review report and qualifying the conclusion.

When the effect of the departure is so material and pervasive to the interim financial information that the auditor concludes a qualified conclusion is not adequate to disclose the misleading or incomplete nature of the interim financial information, the auditor expresses an adverse conclusion.

## 3.11 Limitation on Scope

A limitation on scope ordinarily prevents the auditor from completing the review. When the auditor is unable to complete the review, the auditor should communicate, in writing, to the appropriate level of management and to those charged with governance the reason why the review cannot be completed and consider whether it is appropriate to issue a report.

### 3.11.1 Limitation on Scope Imposed by Management

The auditor does not accept an engagement to review the interim financial information if the auditor's preliminary knowledge of the engagement circumstances indicates that the auditor would be unable to complete the review because there will be a limitation on the scope of the auditor's review imposed by the management of the entity.

If, after accepting the engagement, management imposes a limitation on the scope of the review, the auditor requests the removal of that limitation. If management refuses to do so, the auditor is unable to complete the review and express a conclusion. In such cases, the auditor communicates, in writing, to the appropriate level of management and those charged with governance the reason why the review cannot be completed. Nevertheless, if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment to the interim financial information is necessary for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor communicates such matters.

The auditor also considers the legal and regulatory responsibilities, including whether there is a requirement for the auditor to issue a report. If there is such a requirement, the auditor disclaims a conclusion, and provides in the review report the reason why the review cannot be completed. However, if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment to the interim financial information is necessary for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor also communicates such a matter in the report.

### 3.11.2 Other Limitations on Scope

A limitation on scope may occur due to circumstances other than a limitation on scope imposed by management. In such circumstances, the auditor is ordinarily unable to complete the review and express a conclusion. There may be, however, some rare circumstances where the limitation on the scope of the auditor's work is clearly confined to one or more specific matters that, while material, are not in the auditor's judgment pervasive to the interim financial information. In such circumstances, the auditor modifies the review report by indicating that, except for the matter which is described in an explanatory paragraph to the review report, the review was conducted in accordance with this SRE, and by qualifying the conclusion.

The auditor may have expressed a qualified opinion on the audit of the latest annual financial statements because of a limitation on the scope of that audit. The auditor considers whether that limitation on scope still exists and, if so, the implications for the review report.

## 3.12 Going Concern and Significant Uncertainties

If, as a result of inquiries or other review procedures, a material uncertainty relating to an event or condition comes to the auditor's attention that may cast significant doubt on the entity's ability to continue as a going concern, and adequate disclosure is made in the interim financial information the auditor modifies the review report by adding an emphasis of matter paragraph.

The auditor may have modified a prior audit or review report by adding an emphasis of matter paragraph to highlight a material uncertainty relating to an event or condition that may cast significant doubt on the entity's ability to continue as a going concern. If the material uncertainty still exists and adequate disclosure is made in the interim financial information, the auditor modifies the review report on the current interim financial information by adding a paragraph to highlight the continued material uncertainty.

If a material uncertainty that casts significant doubt about the entity's ability to continue as a going concern is not adequately disclosed in the interim financial information, the auditor should express a qualified or adverse conclusion, as appropriate. The report should include specific reference to the fact that there is such a material uncertainty.

## 3.13 Other Considerations

The terms of the engagement include management's agreement that where any document containing interim financial information indicates that such information has been reviewed by the entity's auditor, the review report will also be included in the document. If management has not included the review report in the document, the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances.

If the auditor has issued a modified review report and management issues the interim financial information without including the modified review report in the document containing the interim financial information, the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances, and the possibility of resigning from the appointment to audit the annual financial statements.

Interim financial information consisting of a condensed set of financial statements does not necessarily include all the information that would be included in a complete set of financial statements, but may rather present an explanation of the events and changes that are significant to an understanding of the changes in the state of affairs and performance of the entity since the annual reporting date. This is because it is presumed that the users of the interim financial information will have access to the latest audited financial statements, such as is the case with listed entities.

In other circumstances, the auditor discusses with management the need for such interim financial information to include a statement that it is to be read in conjunction with the latest audited financial statements. In the absence of such a statement, the auditor considers whether, without a reference to the latest audited financial statements, the interim financial information is misleading in the circumstances, and the implications for the review report.

## 3.14 Documentation

The auditor should prepare review documentation that is sufficient and appropriate to provide a basis for the auditor's conclusion and to provide evidence that the review was performed in accordance with this SRE and applicable legal and regulatory requirements.

**TEST YOUR UNDERSTANDING 3**

During review of the quarterly results of a company of which you are auditor, it is gathered on inquiries made that there has been a major fire in fabric processing plant of the company during the quarter. It has resulted in massive disruption in the operations of the company. Worse still, machinery and inventories of plant were uninsured due to carelessness of concerned staff leading to substantial losses. The matter has been disclosed in interim financial information appropriately. Discuss how you would proceed to deal with the same in the review report.

**TEST YOUR UNDERSTANDING 4**

CA Seerat is conducting review of the quarterly financial information of a company of which she is also auditor. She believes that it is necessary to make a material adjustment to the quarterly financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework. She has communicated the matter to the CFO and the audit committee. However, no response was received even after waiting for a reasonable time. What are the options available to her?

## Integrated Case Scenario

Below is given an *incomplete* draft text of the review report on the review of financial results of *Fast Operations Limited*, a listed company in accordance with SEBI regulations. The review is a compulsory requirement under SEBI (Listing Obligations and Disclosure Requirements) Regulations. The incomplete areas of the report have been marked as ***XXXX.***

***INDEPENDENT AUDITOR'S REVIEW REPORT ON REVIEW OF INTERIM STANDALONE FINANCIAL RESULTS***

***TO XXXX***

1. We have reviewed the accompanying Statement of Standalone unaudited financial results of *Fast Operations Limited* ("the Company"), for the quarter and six months ended September 30, 2024 ("the Statement"), being submitted by the Company pursuant to the

requirement of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended.

2. This Statement, which is the responsibility of the Company's Management and approved by the Company's Board of Directors, has been prepared in accordance with the recognition and measurement principles laid down in the Indian Accounting Standard 34 "Interim Financial Reporting" ("Ind AS 34"), prescribed under Section 133 of the Companies Act, 2013 read with relevant rules issued thereunder and other accounting principles generally accepted in India. Our responsibility ***XXXXXXXXXX***.

3. We conducted our review of the Statement in accordance with the Standard ***XXXX***, issued by the Institute of Chartered Accountants of India (ICAI). A review of interim financial information consists of making inquiries, primarily of the company's personnel responsible for financial and accounting matters and applying analytical and other review procedures. A review is substantially ***XXXXXXXXXXXXXXXXXXXXXXXX***.

4. Based on our review conducted as stated in paragraph 3 above, ***XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX***

Using your knowledge, answer the following questions to complete the draft text of review report of *Fast Operations Limited*: -

***1. The name of addressee is missing from text of draft review report. Identify the most appropriate option:***

(a) Audit Committee

(b) Board of Directors

(c) CFO

(d) Stock exchange on which shares of company are listed

***2. Under para 2 of the case study, choose the appropriate sentence beginning with "Our responsibility XXXX":***

(a) Our responsibility is to express an opinion on the Statement based on our review.

(b) Our responsibility is to express a conclusion on the Statement based on our review.

(c) Our responsibility is to provide a reasonable assurance on the Statement based on our review.

(d) Our responsibility is to express a compliance statement on the Statement based on our review.

***3. Given the description of case study, which of the following engagement standards is most appropriate to be stated in para 3?***

(a) SRE 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'.

(b) SRE 2400 Engagements to Review Historical Financial Statements.

(c) SA 700 Forming an Opinion and Reporting on Financial Statements.

(d) SA 810 Engagements to Report on Summary Financial Statements.

***4. Which of the following statements is most appropriate to be inserted in sentence beginning with "A review is substantially XXXX" in para 3?***

(a) A review is substantially broader in scope than an audit conducted in accordance with Standards on Auditing specified under section 143(10) of the Companies Act, 2013 and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a review. Accordingly, we do not express an audit opinion.

(b) A review is substantially broader in scope than an audit conducted in accordance with Standards on Auditing specified under section 143(10) of the Companies Act, 2013 and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

(c) A review is substantially narrower in scope than an audit conducted in accordance with Standards on Auditing specified under section 143(10) of the Companies Act, 2013 and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a review. Accordingly, we do not express an audit opinion.

(d) A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing specified under section 143(10) of the Companies Act, 2013 and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

***5. Complete the paragraph 4 of case study from following options: -***

(a) Nothing has come to our attention that causes us to believe that the accompanying Statement, prepared in accordance with the recognition and measurement principles laid down in the aforesaid Indian Accounting Standard and other accounting principles generally accepted in India, has not disclosed the information required to be disclosed in terms of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, including the manner in which it is to be disclosed, or that it contains any material misstatement.

(b) Nothing has come to our attention that causes us to believe that the accompanying Statement, prepared in accordance with the recognition and measurement principles laid down in the aforesaid Indian Accounting Standard and other accounting principles generally accepted in India, has disclosed the information required to be disclosed in terms of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, including the manner in which it is to be disclosed, or that it does not contain any material misstatement.

(c) The accompanying Statement, prepared in accordance with the recognition and measurement principles laid down in the aforesaid Indian Accounting Standard and other accounting principles generally accepted in India, has disclosed the information required to be disclosed in terms of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, including the manner in which it is to be disclosed, or that it does not contain any material misstatement.

(d) The accompanying Statement, prepared in accordance with the recognition and measurement principles laid down in the aforesaid Indian Accounting Standard and other accounting principles generally accepted in India, has disclosed the information required to be disclosed in terms of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, including the manner in which it is to be disclosed, or that it does not contain any material misstatement and gives a true and fair view of the state of affairs of the company as on date of interim financial statements.

## Key Takeaways

- "Review" is a *limited assurance* engagement. Limited assurance engagement provides lower level of assurance than audit. It involves fewer procedures and gathers sufficient appropriate evidence on basis of which limited conclusions can be drawn up.
- Standards on review engagements apply where "review" of financial information is undertaken by the practitioner. SRE 2400 and SRE 2410 have been issued in this regard.
- SRE 2400 deals with the practitioner's responsibilities performing a review of historical financial statements when the practitioner is not the auditor of the entity's financial statements.
- The practitioner's objectives in accordance with SRE 2400 includes obtaining limited assurance, primarily by performing inquiry and analytical procedures, about whether the financial statements as a whole are free from material misstatement and to report on the financial statements as a whole and communicate, as required by this SRE.
- Prior to accepting a review engagement, the practitioner shall determine that preconditions for accepting a review engagement exist.
- The practitioner performs review engagement mainly focussing upon inquiry and analytical procedures. Besides, procedures to address specific circumstances, are also performed. Additional procedures are also performed when the practitioner becomes aware that the financial statements may be materially misstated.
- Written representations are obtained and evidence from performing procedures is evaluated. Limited conclusions are drawn, and a review report is issued.
- SRE 2410 applies when review of interim financial information is performed by the independent auditor of the financial statements of the entity.
- Interim financial information is financial information that is prepared and presented in accordance with an applicable financial reporting framework and comprises either a complete or a condensed set of financial statements for a period that is shorter than the entity's financial year.
- The objective of an engagement to review interim financial information is to enable the auditor to express a conclusion whether, on the basis of the review, anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is

not prepared, in all material respects, in accordance with an applicable financial reporting framework.

- The auditor makes inquiries and performs analytical and other review procedures in order to reduce to a moderate level the risk of expressing an inappropriate conclusion when the interim financial information is materially misstated.
- Review documentation should be prepared that is sufficient and appropriate to provide a basis to provide evidence that the review was performed in accordance with requirements.

# TEST YOUR KNOWLEDGE

## Theoretical Questions

1. *Discuss why "inquiry" is important as an audit procedure in an engagement to review financial statements.*
2. *CA Aditya Jain is auditor of a listed company. He is also required to carry out a quarterly review of financial statements of company in terms of regulatory requirements. He is already well-versed with the business of the company and has a deep understanding of the company. Discuss any of the five procedures by which he can update his understanding of the company for carrying out quarterly review.*
3. *What is significance of "date of report" in a review report?*
4. *CA Pankaj Chaturvedi has issued a review report dated 28-07-2024 for the financial results of a company for quarter ending 30-06-2024. Describe his responsibility, if any, for events occurring from 01-07-2024 till date of review report in accordance with SRE 2410.*
5. ***A review of financial statements includes consideration of the entity's ability to continue as a going concern. If, during the performance of the review, the practitioner becomes aware of events or conditions that may cast significant doubt about the entity's ability to continue as a going concern. Enumerate the steps to be taken by the practitioner for the same.***
6. ***GAK Limited has compiled the interim financial information, as per the Listing agreement requirements, and submitted it to the auditors for their review. CA Reena has been assigned on the engagement to review the interim financial information of GAK Limited. Based on the inquiries and other review procedures carried out, CA Reena assessed that GAK Limited has been facing continuous working capital***

***shortages. No financial institutions or banks are ready to lend additional funding limits to GAK Limited, since the company has been continuously incurring losses for over 3 years and the company has defaulted payment of loan instalments & interest over the last one year and operations have been curtailed significantly.***

***Under such circumstances CA Reena, who is doing the review for the first time, noted that GAK Limited has not disclosed any information in the interim financial information relating to material uncertainties. Given the situation, please advise CA Reena, what kind of review report is required to be issued? If, GAK Limited has disclosed information relating to material uncertainty, can CA Reena give a clean report? Discuss.***

7. ***In a review engagement performed under SRE 2400, practitioner relies mainly on certain procedures. Naming such procedures, discuss the importance of these procedures in a review engagement.***

   ***Practitioner's report containing outcome of review engagement in form of "conclusion" also contains a description of a review of financial statements and its limitations. Which statements in this respect are to be included in the practitioner's report in accordance with SRE 2400?***

## Answers to Test Your Understanding

**1.** The above financial statements are prepared in accordance with the special purpose framework in accordance with requirements of a contract. Financial statements prepared in accordance with the special purpose framework can also be reviewed by a professional accountant in practice and review report may be issued in accordance with SRE 2400.

**2.** If the practitioner becomes aware of matters that causes the practitioner to believe the financial statements may be materially misstated, the practitioner shall design and perform additional procedures sufficient to enable the practitioner to: -

   (a) Conclude that the matter(s) is not likely to cause the financial statements as a whole to be materially misstated or

   (b) Determine that the matter(s) causes the financial statements as a whole to be materially misstated.

   Additional procedures focus on obtaining sufficient appropriate evidence to enable the practitioner to form a conclusion on matters that the practitioner believes may cause the financial statements to be materially misstated. The procedures may be:

- Additional inquiry or analytical procedures, for example, being performed in greater detail or being focused on the affected items (i.e. amounts or disclosures concerning the affected accounts or transactions as reflected in the financial statements); or
- Other types of procedures, for example, substantive test of details or external confirmations.

**3.** Uninsured assets in a disaster are examples of events or conditions that, individually or collectively, may cast significant doubt about the going concern assumption. As a result of the fire, there is massive disruption in the operations of the company. Besides, the company would have to bear losses as its damaged assets are uninsured.

In accordance with SRE 2410, if, as a result of inquiries or other review procedures, a material uncertainty relating to an event or condition comes to the auditor's attention that may cast significant doubt on the entity's ability to continue as a going concern, and adequate disclosure is made in the interim financial information, the auditor modifies review report by adding an emphasis of matter paragraph.

Therefore, Emphasis of Matter paragraph should be added in review report.

**4.** In such a case, options available to her in accordance with SRE 2410 are: -

(a) Whether to modify the report or

(b) The possibility of withdrawing from the engagement and

(c) The possibility of resigning from the appointment to audit the annual financial statements.

## Answers to Integrated Case Scenario

**1.** (b) **2.** (b) **3.** (a) **4.** (d) **5.** (a)

## Answers to Theoretical Questions

**1.** Refer to Para 2.4.

**2.** Refer to Para 3.3.

**3.** Refer to Para 2.4.

**4.** The auditor should inquire whether management has identified all events up to the date of the review report that may require adjustment to or disclosure in the interim financial information.

***5. Refer to Para 2.4***

***6. Going Concern and Significant Uncertainties: As per SRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", if, as a result of inquiries or other review procedures, a material uncertainty relating to an event or condition comes to the auditor's attention that may cast significant doubt on the entity's ability to continue as a going concern, and adequate disclosure is made in the interim financial information the auditor modifies the review report by adding an emphasis of matter paragraph.***

***The auditor may have modified a prior audit or review report by adding an emphasis of matter paragraph to highlight a material uncertainty relating to an event or condition that may cast significant doubt on the entity's ability to continue as a going concern.***

***If a material uncertainty that casts significant doubt about the entity's ability to continue as a going concern is not adequately disclosed in the interim financial information, the auditor should express a qualified or adverse conclusion, as appropriate. The report should include specific reference to the fact that there is such a material uncertainty.***

***In view of the above, in the given situation, GAK Limited has compiled the interim financial information, as per the Listing agreement requirements, and submitted it to the auditors for their review. CA Reena has been assigned on the engagement to review the interim financial information of GAK Limited. CA Reena noticed that GAK Limited has not disclosed any information in the interim financial information relating to material uncertainties that casts significant doubt about the entity's ability to continue as a going concern. Thus, the auditor should express a qualified or adverse conclusion, as appropriate. The report should include specific reference to the fact that there is such a material uncertainty.***

***If the material uncertainty still exists and adequate disclosure is made in the interim financial information, the auditor modifies the review report on the current interim financial information by adding a paragraph to highlight the continued material uncertainty. If GAK Limited has disclosed information relating to material uncertainties, CA Reena should modify the review report by adding an emphasis of matter paragraph.***

***7. Refer to Para 2.4.***