Appendix 2

(Ref: Para. A20)

ANALYTICAL PROCEDURES THE AUDITOR MAY CONSIDER WHEN PERFORMING A REVIEW OF A FINANCIAL REPORT

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

Examples of analytical procedures the auditor may consider when performing a review of a financial report include the following:

* Comparing the financial report with the financial report of the immediately preceding period, with the financial report of the corresponding period of the preceding financial year, with the financial report that was expected by management for the current period, and with the most recent audited annual financial report.
* Comparing the current financial report with anticipated results, such as budgets or forecasts. For example, comparing sources of revenue and the and the cost of sales in the current financial report with corresponding information in:
  + budgets, including expected gross margin(s); and
  + financial information for prior periods.
* Comparing the current financial report with relevant non‑financial information.
* Comparing the recorded amounts, or ratios developed from recorded amounts, to expectations developed by the auditor. The auditor develops such expectations by identifying and applying relationships that reasonably are expected to exist based on the auditor’s understanding of the entity and of the industry in which the entity operates.
* Comparing ratios and indicators for the current period with those of entities in the same industry.
* Comparing relationships among elements in the current financial report with corresponding relationships in the financial report of prior periods, for example, expense by type as a percentage of sales, assets by type as a percentage of total assets, and percentage of change in sales to percentage of change in receivables.
* Comparing disaggregated data. The following are examples of how data may be disaggregated:
  + by period, for example, revenue or expense items disaggregated into quarterly, monthly, or weekly amounts;
  + by product line or source of revenue;
  + by location, for example by component;
  + by attributes of the transaction, for example, revenue generated by designers, architects, or craftsmen; and
  + by several attributes of the transaction, for example, sales by product and month.

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

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

*General*

1. Confirm that the engagement team complies with relevant independence and ethical requirements.
2. Prepare and send an engagement letter to the entity.
3. Discuss the terms and scope of the engagement with the engagement team.
4. Obtain or update knowledge and understanding of the business, the key internal and external changes (including laws and regulations), and their effect on the scope of the review, materiality and risk assessment. This can be performed through the following:
   1. Ascertaining whether there have been any significant changes to the nature and scope of operations.
   2. Considering the results and effects of previous audits and review engagements.
   3. Enquiring of persons responsible for financial reporting in respect of matters that impact on the reliability of the underlying accounting records. For example, considering fraud risk, material weaknesses in internal controls and any significant changes to internal control policies and procedures
   4. Considering the results of any internal audits performed and the subsequent actions taken by management.
   5. Considering whether additional procedures will be required on any significant accounts where internal controls relating to significant processes have been historically unreliable in detecting and preventing errors in the financial report.
   6. The auditor shall enquire of management and, where appropriate, those charged with governance, as to the existence of any actual or suspected non-compliance with provisions of laws and regulations that are generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements. Refer to ASA 250 for further guidance if considered appropriate.

Assess the relevance and impact of the results of the above procedures on the current period.

1. Determine materiality, exercising professional judgement, considering both qualitative and quantitative factors.
2. Enquire of persons responsible for financial reporting about the following:
   1. Accounting policies adopted and consider whether:
      1. they comply with the applicable financial reporting framework;
      2. they have been applied appropriately; and
      3. they have been applied consistently and, if not, consider whether disclosure has been made of any changes in the accounting policies.
   2. Policies and procedures used to assess asset impairment and any consequential estimation of recoverable amount.
   3. The policies and procedures to determine the fair value of financial assets and financial liabilities.
   4. New, unusual or complex situations that may have affected the financial report such as a business combination or disposal of a segment of the business. Consider adequacy of additional note disclosures in the financial report.
   5. Plans to dispose of major assets or business segments.
   6. Material off‑balance sheet transactions, special purpose entities and other equity investments and related accounting treatment and disclosure.
   7. Knowledge of any allegations of fraud, or suspected fraud.
   8. Knowledge of any actual or possible significant non‑compliance with laws and regulations.
   9. Compliance with debt covenants.
   10. Material or unusual related party transactions.
   11. New or significant changes in commitments, contractual obligations.
3. Obtain and read the minutes of meetings of shareholders, those charged with governance and other appropriate committees to identify matters that may affect the financial report, and enquire about matters dealt with at meetings for which minutes are not yet available that may affect the financial report.
4. Enquire if actions taken at meetings of shareholders or those charged with governance that affect the financial report have been appropriately reflected therein.
5. Ensure the financial report is agreed to the trial balance including disclosures. If applicable, enquire as to whether all intercompany balances have been eliminated.
6. Review other information included in the financial report and document findings. Discuss any material misstatements of fact with the entity’s management.

*Cash*

1. Obtain the bank reconciliations. Enquire about any old or unusual reconciling items with client personnel to assess reasonableness.
2. Enquire about transfers between cash accounts for the period before and after the review date.
3. Enquire whether there are any restrictions on cash accounts.

*Revenue and Receivables*

1. Enquire about the accounting policies for recognising sales revenue and trade receivables and determine whether they have been consistently and appropriately applied.
2. Obtain a schedule of receivables and determine whether the total agrees with the trial balance.
3. Obtain and consider explanations of significant variations in account balances from previous periods or from those anticipated.
4. Obtain an aged analysis of the trade receivables. Enquire about the reason for unusually large accounts, credit balances on accounts or any other unusual balances and enquire about the collectability of receivables.
5. Consider, with management, the classification of receivables, including non‑current balances, net credit balances and amounts due from shareholders, those charged with governance and other related parties in the financial report.
6. Enquire about the method for identifying “slow payment” accounts and setting allowances for doubtful accounts and consider it for reasonableness.
7. Enquire whether receivables have been pledged, factored or discounted and determine whether they have been properly accounted for.
8. Enquire about procedures applied to ensure that a proper cut‑off of sales transactions and sales returns has been achieved.
9. Enquire whether accounts represent goods shipped on consignment and, if so, whether adjustments have been made to reverse these transactions and include the goods in inventory.
10. Enquire whether any large credits relating to recorded income have been issued after the balance sheet reporting date and whether provision has been made for such amounts. Consider the reasonableness of any provisions.

*Inventories*

1. Obtain the inventory list and determine whether:
   1. the total agrees with the balance in the trial balance; and
   2. the list is based on a physical count of inventory.
2. Enquire about the method for counting inventory.
3. Where a physical count was not carried out on the balance sheet date, enquire whether:
   1. a perpetual inventory system is used and whether periodic comparisons are made with actual quantities on hand; and
   2. an integrated cost system is used and whether it has produced reliable information in the past.
4. Consider adjustments made resulting from the last physical inventory count.
5. Enquire about procedures applied to control cut‑off and any inventory movements.
6. Enquire about the basis used in valuing each inventory classification and, in particular, regarding the elimination of inter‑branch profits. Enquire whether inventory is valued at the lower of cost and net realisable value (or lower of cost and replacement cost for not‑for‑profit organisations).
7. Consider the consistency with which inventory valuation methods have been applied, including factors such as material, labour and overhead.
8. Compare amounts of major inventory categories with those of prior periods and with those anticipated for the current period. Enquire about major fluctuations and differences.
9. Compare inventory turnover with that in previous periods.
10. Enquire about the method used for identifying slow moving and obsolete inventory and whether such inventory has been accounted for at net realisable value.
11. Enquire whether any inventory has been consigned to the entity and, if so, whether adjustments have been made to exclude such goods from inventory.
12. Enquire whether any inventory is pledged, stored at other locations or on consignment to others and consider whether such transactions have been accounted for appropriately.

*Investments (Including Associated Entities and Financial Instruments)*

1. Obtain a schedule of the investments at the balance sheet reporting date and determine whether it agrees with the trial balance.
2. Enquire whether the accounting policy applied to investments is consistent with prior periods.
3. Enquire from management about the carrying values of investments. Consider whether there are any realisation problems.
4. Enquire whether there are any new investments, including business combinations. Consider classification, measurement and disclosure in respect of material or significant acquisitions.
5. Consider whether gains and losses and investment income have been properly accounted for.
6. Enquire about the classification of long‑term and short‑term investments.

*Property Plant and Equipment and Depreciation*

1. Obtain a schedule of the property, plant and equipment indicating the cost and accumulated depreciation and determine whether it agrees with the trial balance.
2. Enquire about the accounting policy applied regarding residual values, provisions to allocate the cost of property, plant and equipment over their estimated useful lives using the expected pattern of consumption of the future economic benefits and distinguishing between capital and maintenance items. Consider whether there are any indicators of impairment and whether the property, plant and equipment have suffered a material, permanent impairment in value.
3. Discuss with management the additions and deletions to property, plant and equipment accounts and accounting for gains and losses on disposals or de‑recognition. Enquire whether all such transactions have been properly accounted for.
4. Enquire about the consistency with which the depreciation method and rates have been applied and compare depreciation provisions with prior years.
5. Enquire whether there are any restrictions on the property, plant and equipment.
6. Enquire whether lease agreements have been properly reflected in the financial report in conformity with current accounting pronouncements.

*Prepaid Expenses, Intangibles and Other Assets*

1. Obtain schedules identifying the nature of these accounts and determine whether they agree with the trial balance. Discuss recoverability thereof with management.
2. Enquire whether management have updated their impairment calculations in respect of goodwill or other intangibles. Consider whether there have been any indicators of impairment for intangibles and enquire whether management have appropriately considered discount rates, growth rates, etc.
3. Enquire about the basis for recording these accounts and the amortisation methods used.
4. Compare balances of related expense accounts with those of prior periods and obtain explanations for significant variations with management.

Discuss the classification between current and non‑current accounts with management.

*Investment Property*

1. Obtain a schedule of investment property and determine whether it agrees with the trial balance.
2. Enquire whether the accounting policy applied to investment property is consistent with prior periods.
3. Update with management the acquisitions and disposals to investment property and accounting for gains and losses on disposals or de‑recognition. Determine whether all significant transactions have been accounted for appropriately.
4. Consider whether there are any indicators of impairment and whether any investment property was subject to recent valuations.

*Loans Payable*

1. Obtain from management a schedule of loans payable and determine whether the total agrees with the trial balance.
2. Enquire whether there are any loans where there has been a change to the terms and conditions or management has not complied with the provisions of the loan agreement, including any debt covenants. Assess whether loans have been appropriately classified as current or non‑current in the financial report.
3. Where material, consider the reasonableness of interest expense in relation to loan balances.
4. Enquire whether loans payable are secured. Review loan and working capital facilities. Enquire if options to extend terms have been exercised or if any debt requires refinancing.

*Trade Payables*

1. Enquire about the accounting policies for initially recording trade payables and whether the entity is entitled to any allowances given on such transactions.
2. Obtain and consider explanations of significant variations in account balances from previous periods or from those anticipated.
3. Obtain a schedule of trade payables and determine whether the total agrees with the trial balance.
4. Enquire whether balances are reconciled with the creditors’ statements and compare with prior period balances. Compare turnover with prior periods.
5. Consider whether there could be material unrecorded liabilities.
6. Enquire whether payables to shareholders, those charged with governance and other related parties are separately disclosed.

*Other Liabilities and Contingent Liabilities*

1. Obtain a schedule of other liabilities and determine whether the total agrees with the trial balance.
2. Compare major balances of related expense accounts with similar accounts for prior periods.
3. Enquire about approvals for such other liabilities, terms of payment, compliance with terms, collateral and classification.
4. Enquire about other liabilities to assess whether the methodology and assumptions adopted are consistent with prior periods. Enquire whether there are any unusual trends and developments affecting accounting estimates.
5. Enquire as to the nature of amounts included in contingent liabilities and commitments.
6. Enquire whether any actual or contingent liabilities exist which have not been recognised in the accounts. If so, enquire with management and/or those charged with governance whether provisions need to be made in the accounts or whether disclosure should be made in the notes to the financial report.

*Income and Other Taxes*

1. Enquire from management if there were any events, including disputes with taxation authorities, which could have a significant effect on the taxes payable by the entity. Examine correspondence in relation to any significant matters arising and assess whether events have been reflected appropriately in the financial report.
2. Consider the tax expense in relation to the entity’s income for the period.
3. Enquire from management as to the adequacy of the recognised deferred and current tax assets and/or liabilities including provisions in respect of prior periods.

*Financial Instruments*

1. Enquire or update knowledge and understanding with persons responsible for financial reporting (including any treasury specialist), of what derivatives are in place, what accounting policies are applied to these derivatives and whether they have been consistently applied.
2. Enquire whether any hedges have been entered into for speculative purposes.
3. Enquire whether there are adequate policies and procedures to determine the fair value of financial assets and financial liabilities.
4. Enquire whether there are any sales and transfers that may call into question the classification of investments in securities, including management’s intent and ability with respect to the remaining securities classified as held to maturity.

*Employee Share Plans*

1. Enquire about any new employee share plans or changes to existing plans, and where employee share plans are material, assess whether the accounting methodology has been consistently applied.

*Subsequent Events*

1. Obtain from management the latest financial report and compare it with the financial report being reviewed or with those for comparable periods from the preceding year.
2. Enquire about events after the balance sheet reporting date that would have a material effect on the financial report under review and, in particular, enquire whether:
   1. any substantial commitments or uncertainties have arisen subsequent to the balance sheet date;
   2. any significant changes in the share capital, long‑term debt or working capital have occurred up to the date of enquiry; and
   3. any unusual adjustments have been made during the period between the balance sheet reporting date and the date of enquiry.

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

1. Obtain and read the minutes of meetings of shareholders, those charged with governance and appropriate committees subsequent to the balance sheet date and consider any impact of the financial report and disclosures.

*Litigation*

1. Enquire from persons responsible for financial reporting, and where appropriate in‑house litigation specialists, whether the entity is the subject of any legal actions - threatened, pending or in process. Consider the effect thereof on the financial report and any provision for loss.

*Equity*

1. Obtain and consider a schedule of the transactions in the equity accounts, including new issues, retirements and dividends. Consider whether there are any unusual terms for new issues of debt or equity which could affect classification.
2. Enquire whether there are any restrictions on retained earnings or other equity accounts.

*Operations*

1. Compare results with those of prior periods and those expected for the current period. Obtain explanations of significant variations with management.
2. Enquire whether the recognition of major revenue and expenses have taken place in the appropriate periods.
3. Enquire whether the policies and procedures related to revenue recognition, including accrued income, have been consistently applied and whether there are any new or complex changes, including any changes in major contracts with customers or suppliers.
4. Consider and update with management the relationship between related items in the revenue account and assess the reasonableness thereof in the context of similar relationships for prior periods and other information available to the auditor.
5. Discuss the policy in respect of capitalisation of interest and whether it is in accordance with Australian Accounting Standards.

*Going Concern Assessment*

1. Consider the going concern assumption. When events or conditions come to attention which may cast significant doubt on the entity’s ability to continue as a going concern, perform additional procedures to assess the impact on the financial report and auditor’s review report as required by paragraph 19 of this Auditing Standard. Additional procedures include:
   1. Discussion with those charged with governance to understand the events and circumstances that have contributed to the current situation to determine whether the risk arising can be mitigated.
   2. Plans for future actions, such as plans or intentions to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital.
   3. Feasibility of the plans and whether those charged with governance believe that the outcome of these plans will improve the situation.

Consider the adequacy of disclosure about such matters in the financial report. Auditors may also refer to ASA 570 *Going Concern* for guidance which may be helpful.

*Evaluation of Misstatements*

1. Ensure significant review differences have been summarised and their effect evaluated.
2. Ensure material adjustments identified are notified to management/ those charged with governance (as appropriate).

*Written Representations*

1. Obtain written representation from the directors/management/those charged with governance (as appropriate) to confirm matters arising during the course of the review engagement.

*Documentation*

1. Ensure that review documentation is sufficient and appropriate to provide a basis for the conclusion and to provide evidence of compliance with ASRE 2410.