Independent Review

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Presenter

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- Explore ProTech Entrepreneurial Haven (Co-Founder)
- Top 35 under 35 Chartered Accountant (SAICA)
- Top 50 women in accounting

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Course Outline

Learning Outcomes

<u>By the end of this webinar you should:</u>

- Understand what an independent review is;
- Understand how to perform an independent review engagement;
- Understand the independent review process; and
- Be able to report on an independent review engagement.

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Quote

Your smile will give you a positive countenance that will make people feel comfortable around you.

Les Brown

Module 1

What is an independent review?

What is an independent review?

A review is a limited assurance engagement where the practitioner performs primarily inquiry and analytical procedures to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole, expressed in accordance with the requirements of ISRE 2400 (Revised).

When is an independent review required?

All companies that are not required to have audited financial statements must have their financial statements independently reviewed (with the exception of companies where all the shareholders are also directors and therefore are not required to obtain an audit or a review).

When is an independent review required?

The Act requires public companies and state owned companies to have an audit.

In addition, the Regulations, which provide for both activity and size criteria to determine whether or not companies require audited financial statements, require any company that falls within any of the following categories in any particular financial year to have its financial statements audited:

When is an independent review required?

(a) Any profit or non-profit company if, in the ordinary course of its primary activities, it holds assets in a fiduciary capacity for persons who are not related to the company, and the aggregate value of such assets held at any time during the financial year exceeds R5 million;

When is an independent review required?

(b) Any non-profit company, if it was incorporated—

(i) directly or indirectly by the state, an organ of state, a state-owned company, an international entity, a foreign state entity or a company; or

When is an independent review required?

(ii) primarily to perform a statutory or regulatory function in terms of any legislation, or to carry out a public function at the direct or indirect initiation or direction of an organ of the state, a state-owned company, an international entity, or a foreign state entity, or for a purpose ancillary to any such function; or

When is an independent review required?

(c) Any other company whose public interest score in that financial year is

(i) 350 or more; or

(ii) at least 100, but less than 350, if its annual financial statements for that year were internally compiled.

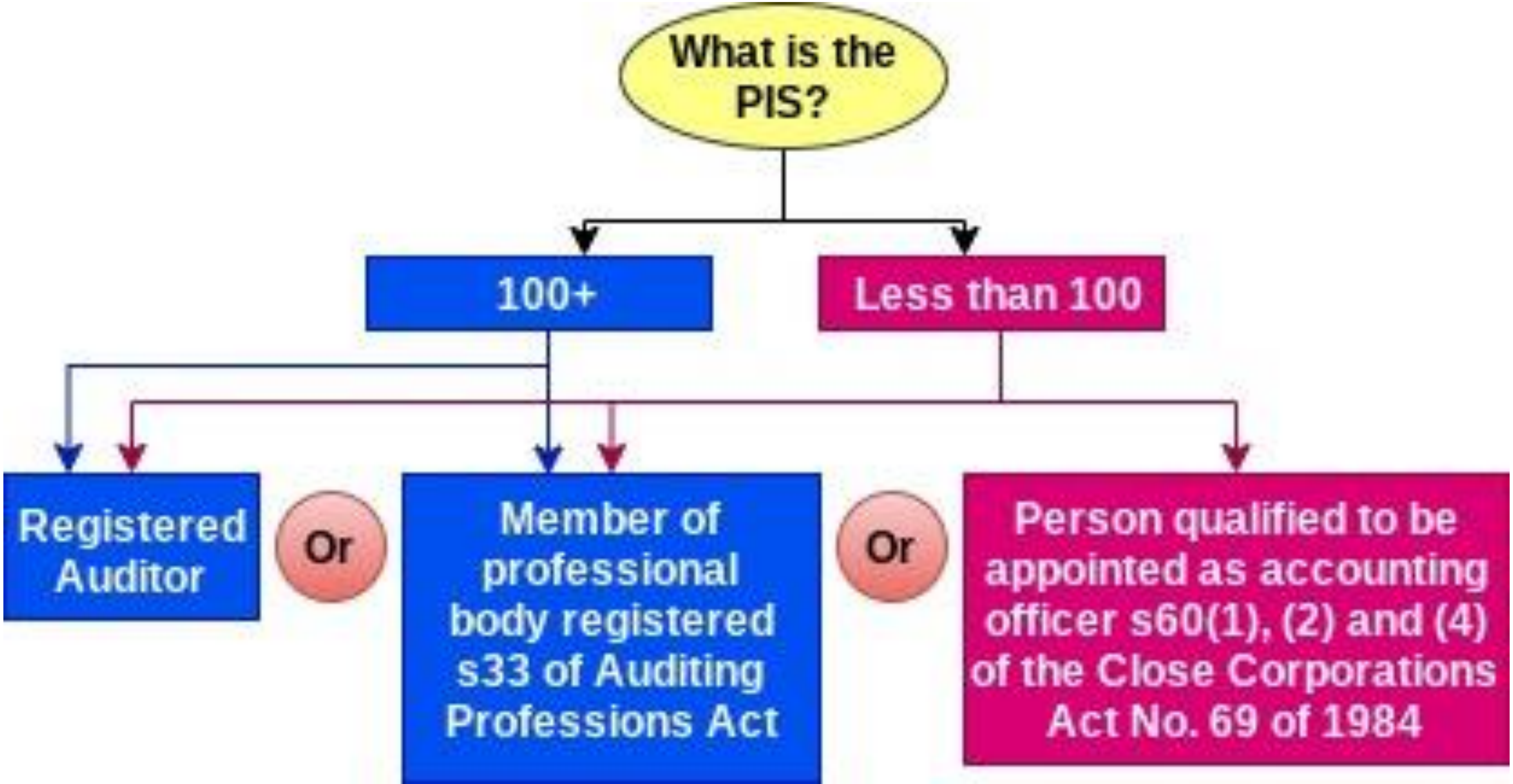
When is an independent review required?

All companies that are not required to have audited financial statements must have their financial statements independently reviewed (with the exception of companies where all the shareholders are also directors and therefore are not required to obtain an audit or a review).

Who can perform an independent review?

An Independent Review is a review engagement performed by a practitioner who was not involved in the preparation of the financial statement.

Who can perform an independent review?



Increased demand for independent reviews

- Companies Act
- SME's desire for increased credibility of financial statements
- SME's demand for lower cost assurance services
- Group auditor demands where a component of a group is not considered to be a significant component where the group engagement team considers a review necessary pursuant to ISA 600.

USES OF INDEPENDENT REVIEWS

An independent review engagement may be used to:

- Support a financing proposal presented to potential investors and financial institutions or an application for a government grant.
- Validate a need for partners to invest additional capital in the entity.
- Provide users, such as shareholders, with some assurance on the annual financial statements where an audit is no longer required.

Uses of independent reviews

An independent review engagement may be used to:

- Help management understand, and take steps to meet, the evolving requirements of regulatory and business reporting.
- Help prepare the finance function of a growing company for a transition to mandatory audit.

USES OF INDEPENDENT REVIEWS

An independent review engagement may be used to:

- Obtain limited assurance with regard to the financial statements of small subsidiaries that are part of a group audit.

- Support internal reviews of the business by management, acting as an additional control.

Benefits of independent reviews

An independent review engagement may be used to:

- Less costly than an audit
- More flexible and targeted engagement

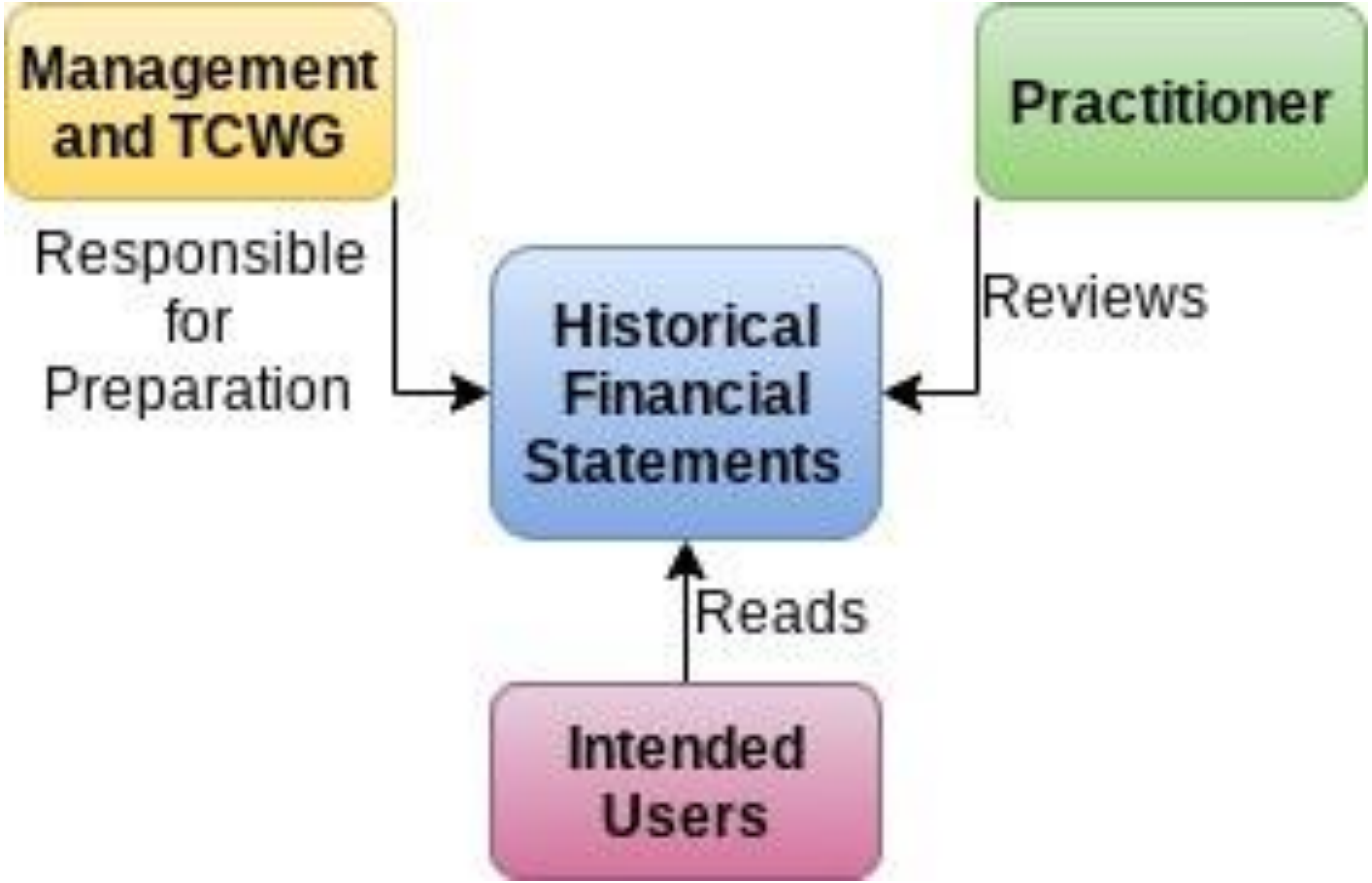
PRACTITIONERS OBJECTIVES IN A REVIEW:

- Obtain limited assurance,
- primarily by performing inquiry and 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 the practitioner's attention that causes the practitioner to believe the financial statements are not prepared, in all material respects in accordance with an applicable financial reporting framework.
- Report & Communicate

PRACTITIONERS OBJECTIVES IN A REVIEW:

- In all cases when limited assurance cannot be obtained and a qualified conclusion in the practitioner's report is insufficient in the circumstances, ISRE 2400 requires that the practitioner either disclaim a conclusion in the report issued for the engagement or, where appropriate, withdraw from the engagement if withdrawal is possible under applicable law or regulation.

PARTIES TO INDEPENDENT REVIEW ENGAGEMENT



AUDIT VS REVIEW VS COMPILATION

Engagement	Standards	Assurance	Work Efforts	Report
Audit	ISA’s	Reasonable	Risk assessment and procedures that respond to the risks identified	Positive opinion
Review	ISRE 2400	Limited	Primary inquiry and analysis	Conclusion on what came to the practitioner’s attention
Compilation	ISRS 4410	None	Assisting management prepare financial information	Report stating no assurance is provided

AUDIT VS REVIEW VS COMPILATION

	Audit	Review	Compilation
Independence required?	Yes	Yes	Only if “Independently Compiled” required by Co Act, based on PIS Score
Materiality calculation?	Financial statements as a whole & Performance materiality	Financial statements as a whole	Financial statements as a whole for the purpose of compiling the information provided

Audit vs Review vs Compilation

	Audit	Review	Compilation
Understanding the entity?	Sufficient to identify and assess the risk of material misstatements at the financial statements and assertion level.	Sufficient to identify areas in the financial statements where material misstatements are likely to arise.	Sufficient to compile the information provided.
Required procedures?	Risk assessment Test of controls * Analytical Substantive	Inquiry Analytical Additional procedures as considered necessary	None specified

Audit vs Review vs Compilation

	Audit	Review	Compilation
Assurance evidence to be obtained?	Sufficient appropriate evidence as a basis for a reasonable assurance opinion on the financial statements	Sufficient appropriate evidence as the basis for a limited assurance conclusion on the financial statements	None specified
Uncorrected misstatements?	Accumulate, evaluate, and request correction by management	Evaluate and request correction by management	Additional information or corrections are requested/proposed during compilation

REASONABLE VS LIMITED ASSURANCE

Reasonable Assurance	● Audit engagement ● Positive opinion (The financial statements present fairly, in all material respects,…) ● A high level of assurance that is achieved when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk to an acceptably low level
Limited Assurance	● Review engagement ● Negative conclusion (Nothing has come to my attention that causes me to believe that these financial statements do not present fairly, in all material respects,...) ● Assurance is limited proportional to the level of the practitioners procedures as described in the assurance report

MODULE 2

THE INDEPENDENT REVIEW PROCESS

KEY STEPS IN THE INDEPENDENT REVIEW PROCESS

1. Determine the **acceptability of the engagement** and client relationship.

1. Obtain an **understanding of the entity** sufficient to first identify areas in the financial statements where material misstatements are likely to arise and then to **design procedures accordingly**.

KEY STEPS IN THE INDEPENDENT REVIEW PROCESS

3. Make inquiries of management and others within the entity involved in financial and accounting matters. This involves using the practitioner's assurance skills to prepare and ask meaningful questions based on the understanding obtained of the entity and any follow-up questions based on the responses received.

KEY STEPS IN THE INDEPENDENT REVIEW PROCESS

4. Apply **analytical procedures.**

5. Design and perform any **additional procedures** required to either confirm or dispel any matter of which the practitioner becomes aware that may cause the financial statements to be materially misstated.

KEY STEPS IN THE INDEPENDENT REVIEW PROCESS

6. Evaluate the sufficiency and appropriateness of the evidence obtained.

7. Form a **conclusion and report** on the financial statements.

The 4 elements of the independent review process

1. Accepting
2. Planning
3. Performing
4. Reporting

1.ACCEPTING

Activity	Purpose	Documentation
Understand firm's quality control (QC) policies for review engagements.	Ensure staff are prepared to perform review engagements.	Reference to firm's QC policies Training provided on QC and review engagements.
Perform acceptance or continuance procedures	Decide whether engagement can be performed	Preliminary observations Independence assessment Engagement letter

2. Planning

Activity	Purpose	Documentation
Determine materiality. Understand the entity and its environment.	Identify F/S areas where misstatements are likely to arise	Materiality Understanding of the entity and environment Likely misstatements
Design inquiries and analytical procedures	Focus work efforts on: - Material F/S areas - Likely misstatements	Team planning notes Listing (plan) of procedures to be performed.

3. PERFORMING

Activity	Purpose	Documentation
Perform planned procedures and any additional procedures necessary	Obtain sufficient appropriate evidence	Results of procedures performed Supporting evidence obtained
Evaluate the information obtained	Dismiss or confirm any concerns about material misstatements that could occur in F/S	Conclusions reached on procedures performed Subsequent events File Completion

4. REPORTING

Activity	Purpose	Documentation
Evaluate findings and discuss with management / TCWG	Ensure effective two-way communication and that all matters are resolved	Review of final F/S presentation/ disclosure Results of discussions Significant judgments
Form a conclusion Prepare an appropriately worded report	Ensure review conclusion is appropriate	Final conclusions Approval of F/S The final review report

MODULE 3

ACCEPTING THE REVIEW ENGAGEMENT

Pre-acceptance procedures

- Ensure everyone on engagement team understands ISRE 2400
- Ensure we comply with all ethical requirements
- Ensure professional scepticism and professional judgement will be applied throughout the engagement
- Ensure independent review is appropriate in cirumstances
- Ensure the engagement partner possesses competence in assurance skills and techniques, and competence in financial reporting, appropriate to the engagement circumstances

Pre-acceptance procedures

- Ensure the firm complies with quality control systems, policies and procedures as prescribed by ISQC 1, ISA 220 & ISRE 2400
- Agree the terms of the engagement
- Determine if the financial statements have been prepared using an appropriate financial reporting framework
- See the acceptance/ continuance checklist (Appendix B - IFAC SMP Guide to Review Procedures)

PROFESSIONAL SCEPTICISM

An essential attitude to enhance ability to:			
Identify / respond	**Critically assess**	**Remain alert**	**Draw**
To conditions that indicate possible misstatement	Information and evidence obtained	For evidence that: - Is contradictory; or - Questions reliability of management or TCWG reprepresentations	Appropriate conclusions

IDENTIFYING / RESPONDING TO CONDITIONS THAT INDICATE POSSIBLE MISSTATEMENT - PROFESSIONAL SCEPTICISM

EXAMPLE 1

The economy is in recession. Unemployment is very high and sales revenue for most entities in the apparel industry has decreased significantly. In performing the review engagement, Kamal spent 10 minutes of research on the internet and discovered that apparel sales are down in his country. He asked management about the increase in apparel sales this period and was told it was entirely due to the great sales team the entity employed.

IDENTIFYING / RESPONDING TO CONDITIONS THAT INDICATE POSSIBLE MISSTATEMENT - PROFESSIONAL SCEPTICISM EXAMPLE 1 (CONTINUED)

On the surface, this seemed to be a reasonable explanation, so Kamal accepted it. However when a variance is significant, some additional explanations would be helpful. Kamal should have exercised professional skepticism rather than simply accepting management's explanation without further inquiry.

IDENTIFYING / RESPONDING TO CONDITIONS THAT INDICATE POSSIBLE MISSTATEMENT - PROFESSIONAL SCEPTICISM EXAMPLE 1 (CONTINUED)

He could have asked some additional questions of management or the salespersons involved as to exactly how it was possible that the entity’s sales team could have beaten the industry trend.

Identifying / responding to conditions that indicate possible misstatement - professional scepticism example 1 (continued)

Such a variance needs to be further explored, as it could well be indicative of fraud. Other analytical review procedurex that could have been performed include a review of sales by month, changes in the accounts receivable balance, and inquiries about the new customers.

Critically assessing information obtained - professional scepticism example 2

In performing review engagement procedures, Fatima inquired of the general manager why there was such a large increase this year in the estimate for inventory obsolescence. The manager replied that despite the overall increase in sales last year, a large inventory of certain electronic parts remains, which will be tough to sell this year.

CRITICALLY ASSESSING INFORMATION OBTAINED - PROFESSIONAL SCEPTICISM EXAMPLE 2 (CONTINUED)

Knowing how electronic parts can become obsolete very quickly, Fatima accepted this explanation and went to her next question. However, Fatima failed to link this answer to an earlier comment by the accountant that the business owner felt extremely overtaxed and wanted to do something about it.

CRITICALLY ASSESSING INFORMATION OBTAINED - PROFESSIONAL SCEPTICISM EXAMPLE 2 (CONTINUED)

Had Fatima made some additional inquiries, such as inquiring about the outcome of last year's estimate for inventory obsolescence, she would have realized that virtually none of the provisions made in the previous period were actually necessary.

In addition, in response to further inquiry, the sales manager might have told her that the electronic parts were actually selling very well, which was the prime reason for having such a large inventory on hand at the end of the year.

Remaining alert - professional scepticism example 3

Emma asked the accountant about the changes in the entity's property, plant and equipment during the year. She was provided with a listing of additions and disposals during the year along with the invoices.

She quickly scanned the invoices and noticed that a computer and printer had been shipped directly to the business owner's house and not to the business address.

Remaining alert - professional scepticism example 3 (continued)

She asked why this had happened and was told it was just a simple mistake by the supplier. As the amount involved was fairly small, Emma took no further action.

However, had Emma asked a few more questions or looked at a few more invoices, she would have found that management (as part of a tax-evasion scheme) had included a number of personal expenses in the accounting records as business expenses.

Drawing appropriate conclusions - professional scepticism example 4

Julian was asked to inquire about the adequacy of the sales cutoff procedures at year end. Everything seemed to be similar to previous years, until he overheads an accounting clerk joking with another employee about a bunch of sales invoices he had been asked to record just prior to the year end.

Drawing appropriate conclusions - professional scepticism example 4 (continue)

Julian decided to ask the accountant about these entries. The accountant responded that nothing unusual had taken place and he should check some invoices for himself if he was concerned.

Julian did not want to create an issue based on this one verbal comment, so he concluded that the cutoff procedures were working as intended and that no material misstatement existed.

Drawing appropriate conclusions - professional scepticism example 4 (continue)

What Julian did not know was that the business owner was planning an expansion that involved obtaining a new bank loan. To help this along, he had asked the accountant to make sure the financial statements showed good results.

The accountant decided to record a number of sales to related parties in the current period that had actually occurred in the next period, thereby inflating sales.

Drawing appropriate conclusions - professional scepticism example 4 (continue)

If Julian had believed that the financial statements may be materially misstated as a result of these extra sales invoices, some additional procedures would have been necessary.

Julian could have inquired about larger than normal accounts receivable balances at year end and reviewed some shipping logs for invoices just prior to year end to determine when the goods were actually shipped.

PROFESSIONAL JUDGEMENT

Professional judgment involves the application of relevant training, knowledge, and experience (within the context provided by the assurance, accounting and ethical standards) in making informed decisions about the courses of action that are appropriate in the circumstances.

PROFESSIONAL JUDGEMENT

- Professional judgment needs to be documented.
- Documentation shall be sufficient to enable an experienced practitioner having no previous connection with the engagement to understand the significant judgments made in reaching those conclusions.

EXAMPLES OF THE USES OF PROFESSIONAL JUDGEMENT

- Determine materiality for the engagement.
- Determining the areas in the financial statements where material misstatements are likely to arise.
- Determining where in the engagement the professional judgment of an experienced practitioner would be essential and where less experienced engagement team members could work with the appropriate supervision.
- Using past experience (in performing assurance engagements) and the understanding obtained of the entity to determine which inquiries and analytical procedures to perform.

EXAMPLES OF THE USES OF PROFESSIONAL JUDGEMENT

- Evaluating the information obtained from inquiries and the sufficiency of the evidence obtained.
- Using professional experience to determine the additional work required when the information received was unexpected and causes the practitioner to believe the financial statements may be materially misstated.
- Determining the appropriate application of the entity's AFRF and the nature of disclosures in the financial statements.
- Drawing on professional experience to determine appropriate engagement conclusions based on the information obtained.

Competence - required competencies

- How to apply professional skepticism and professional judgment when:
  - Planning and performing an assurance engagement; and
  - Obtaining and evaluating evidence
- Understanding information systems and the role and limitations of internal control
- Linking the consideration of materiality and engagement risks to the nature, timing, and extent of procedures for the review.

Competence - required competencies

- Applying procedures, as appropriate, to the review engagement. This includes the use of other types of procedures in addition to inquiry and analytical procedures (such as inspection, recalculation, re-performance, observation, and confirmation).
- Establishing systematic documentation practices.
- Applying the skills and practices relevant for writing assurance engagement reports.

Competence - required competencies

- Because a review engagement is largely based on inquiry and analysis, it is important that the assigned personnel properly understand the interrelationships between various parts of the financial statements (such as the impact on cash flow and income if inventory turnover decreased significantly) and how to prepare and conduct appropriate inquiries of management.

THE PRACTITIONER SHALL NOT ACCEPT A REVIEW ENGAGEMENT IF:

- The practitioner is not satisfied:
  - That there is a rational purpose for the engagement
  - That a review engagement would be appropriate in the circumstances
- The practitioner has reason to believe that relevant ethical requirements, including independence, will not be satisfied.
- 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.

THE PRACTITIONER SHALL NOT ACCEPT A REVIEW ENGAGEMENT IF:

- The practitioner has cause to doubt management's integrity such that it is likely to affect proper performance of the review; or
- 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 the limitation will result in the practitioner disclaiming a conclusion on the financial statements.
- UNLESS REQUIRED BY LAW

A RATIONAL PURPOSE

- Rational purposes would include situations where:
  - A bank requests a review engagement report with regard to a loan made to the entity;
  - A government agency requires a review engagement report in connection with its funding support; or
  - The entity has external stakeholders (investors, members, or supporters) to whom they are accountable.

A RATIONAL PURPOSE

- Non-Rational purposes would include situations where:

  - The firm suspects that the potential client may associate the firm’s name with the financial statements in an appropriate manner. For example, the client tells third parties that the firm’s involvement in reviewing the financial statements was the same as an audit or that the firm, and not management, had prepared the financial statements.
  - An audit, not a review, is what is required by the relevant law/ regulation.

A RATIONAL PURPOSE

- Non-Rational purposes would include situations where:
  - A significant scope limitation exists. This could include missing or inaccessible information, lack of permission to speak to key people, or unrealistic deadlines being imposed.

Further situations where review engagement may not be accepted:

- Doubts exist about the integrity of the principal owners, management, and/ or TCWG and about the potential misuse of the review report.
- The practitioner’s preliminary understanding of the engagement circumstances indicates that information is unlikely to be either unavailable or unreliable.

Further situations where review engagement may not be accepted:

- Significant matters have arisen during the current engagement or during a previous engagement.
  - Examples could be a serious disagreement on financial statement presentation / disclosures, the suitability of the accounting policies in use, or the discovery of transactions or liabilities that were not fully disclosed by management when inquiries were made.
  - Management may be seeking to avoid modification of the opinion in the auditor’s report by requesting a limited assurance engagement when an audit would better meet user needs.

Further situations where review engagement may not be accepted:

- The financial statements are highly complex or require a detailed knowledge of a specialized area of accounting, such as hedging transactions and the practitioner believes that management intends to use the review engagement in order to conceal or minimize the impact of certain facts or information that would have been subject to more detailed procedures if an audit engagement performed.

Independence

- An assessment of independence and compliance with relevant ethical requirements must be performed and documented on an annual basis for every client.
- Ensure that staff members performing this assessment have access to all relevant information and that they clearly understand the independence requirements.
- A common independence threat arises when the client asks the practitioner to assist in drafting the financial statements in addition to performing the review engagement (a self-review threat).

Independence

- In this situation, proper safeguards include obtaining documented client approval of all adjusting entries proposed, allocating account balances in the financial statements, and ensuring the client understands and takes full responsibility for the final financial statements.
- Where possible, having different staff members prepare and review the financial statements may also be beneficial.

SCOPE LIMITATIONS

- In some situations, there may be circumstances that make it impossible to perform a review engagement.
- As a result, the engagement shall be declined unless prohibited by law or regulation.

Scope limitation examples

- Unrealistic deadlines imposed by management for performing the engagement.
- Doubts that the information needed to perform the review (e.g. records, documentation, and other matters) will be available or reliable, including information needed to perform analytical procedures.
- Restricted access to certain persons within or outside the entity that may have relevant information or evidence.

Scope limitation examples

- Restricted access to certain premises (such as an inventory warehouse or operating locations) or restrictions on movement during an inventory count or at the period-end date.
- Doubts about management's integrity. When this occurs, the procedures that involve inquiry of management are unlikely to be effective and written representations would not be reliable.
- Lack of commitment by management to adequate internal control, such as incomplete or messy record keeping.

Scope limitation examples

- Management’s non-acceptance of certain staff members chosen by the firm to perform the engagement.
- Management indicating its intention not to sign the requested written representations at the end of the engagement.
- Unwillingness to pay a fair fee for services to be performed.

Information that could raise doubts about management's integrity:

- History of any ethical or regulatory infringements, such as tax evasion.
- Poor reputation for honesty or ethics within business community.
- Suspicions exist that management might be involved in money laundering or other criminal activities.
- The business being conducted has a reputation for unethical behaviour.

Information that could raise doubts about management's integrity:

- There are related party transactions, the purpose of which is unclear.
- History of management bias in estimates or non-disclosed related parties.
- There are highly complex transactions or activities that do not appear to be necessary or have any rational purpose.
- Management has a poor attitude toward control or maintaining accounting records.

Information that could raise doubts about management's integrity:

- Management is reluctant to provide the information necessary to perform the engagement.
- Seemingly well-founded allegations of wrongdoing have been publicly made in the press or on the internet.
- In previous engagements, management did not disclose important information (e.g., contract violations, loan covenants, or litigation) or has made misleading or false representations.

MODULE 4

PLANNING AND PERFORMING THE REVIEW ENGAGEMENT

PLANNING - CALCULATE MATERIALITY

43. 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. (Ref: Para. A70–A73)

Calculate materiality

- Note that because a review engagement consists primarily of inquiry and analysis, there is no need to determine "performance materiality," which is used in an audit engagement for determining the extent of testing required for particular classes of transactions, account balances, or disclosures.

USE MATERIALITY TO

- Communicate to the team members and TCWG what materiality threshold will be used. (2400.43)
- Determine what financial statement items, including disclosures, are material. (2400.47(a))
- Identify areas in the financial statements where material misstatements are likely to arise (2400.45) so that work efforts may be focused on addressing those areas (2400.47(b))
- Provide a context for evaluating the information obtained as a result of performing the planned procedures.

USE MATERIALITY TO

- Assess whether the information obtained causes the practitioner to believe that the financial statements may be materially misstated and, if so, plan what additional procedures are required.
- Evaluate the nature and impact of identified misstatements and, if not corrected, whether a modification to the review engagement conclusion is required as a result.
- Assess any new information obtained that could require a revision to the initial determination of materiality.

Obtain an understanding

45. 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.
(Ref: Para. A75– A77)

Obtain an understanding

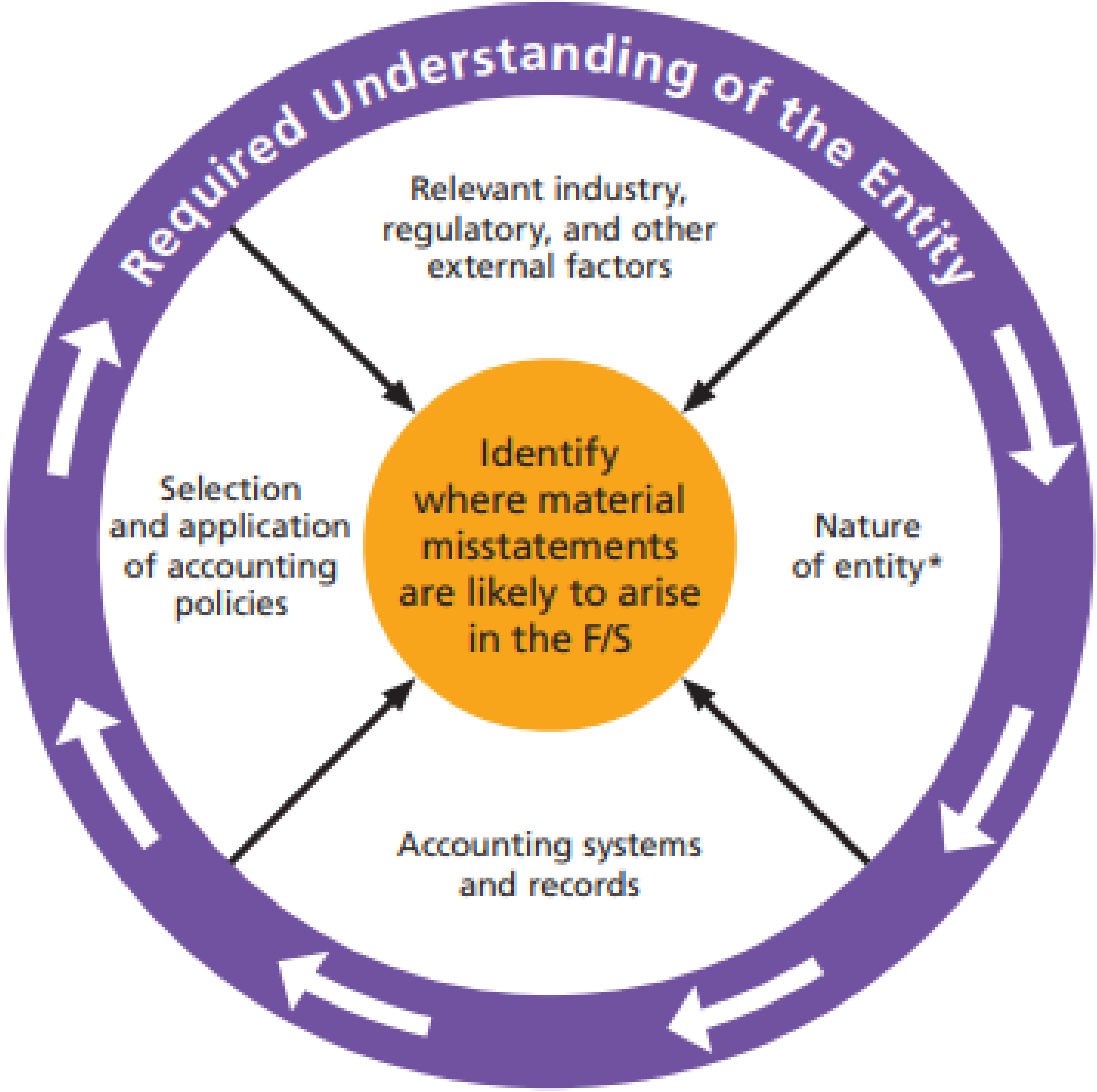
- Financial statement areas where misstatements are likely to arise would include areas prone to misstatement due to matters such as estimation uncertainty, complexity, or need for judgment (hard-to-value inventories, etc.).
- Financial statement areas that fall under the “likely to arise” category would not include areas that are immaterial or relatively easy to review, such as the cost of a building held for some years.

Obtain an understanding

- Avoid the temptation, particularly on recurring engagements, to skip the understanding of the entity step on the assumption that it was all acquired in previous years and nothing has changed.
- This approach can result in a standard set of review procedures being performed with little or no tought given to financial statement areas where misstatements are likely to arise.
- Consequently, too much work may be performed in minor areas and not enough or no work on the important areas.

Obtain an understanding

- Obtaining an understanding of the entity is not a discrete task that can be completed early in the engagement and then put to one side.
- It is important to keep learning about the entity throughout the engagement and be alert to possible misstatements not previously identified or to where the original assessment of possible misstatements needs updating.
- When changes in conditions and circumstances occur, ensure the documentation is updated and any implications, such as a change in review procedures, are addressed.



Including: operations, ownership / governance, investments (made and proposed), operating structure, financing structure, and entity objectives and strategies

Action Step	Description
Make Inquiries of Management	Identify who in the entity is the most qualified person for obtaining the needed information in relation to each of the four specified areas of understanding (Exhibit 4.3-2A), and then for the other areas outlined above (Exhibit 4.3-2B). Arrange to meet with the person(s) identified to ask the necessary questions and document the responses. An alternative approach is to provide the above-identified person(s) with a list of questions, or a worksheet, with a request that they be completed by management in advance of the meeting.
Consider the Information Readily Available from External Sources	Although inquiry will be the principal source of information, the practitioner may determine that, in addition, data about general economic conditions, the state of the client's industry, and even information about the specific client and senior management would be useful for understanding the entity. While not specifically required by ISRE 2400 (Revised), such information can often be obtained from the Internet, trade associations, newspapers, and magazines.
Evaluate the Information Obtained	Review the information obtained to identify areas in the financial statements where material misstatements are likely to arise. Document the findings and what procedures will be designed and performed to address these possible misstatements. This evaluation could also be part of a planning discussion with the engagement team, where suitable procedures to address these areas could be discussed and designed.

Review procedures designed and performed for the identified items /areas include:

- Inquiries [2400(R).48]
- Analytical procedures [2400(R).49]
- IFAC Guide to Review Engagements (Appendix E)
- Procedures to address specific circumstances [2400(R).50-.55]
  - related parties
  - going concern
  - fraud - non-compliance

Review procedures designed and performed for the identified items /areas include:

- F/S agree with or reconcile to the underlying accounting records [2400(R).56]
- Additional procedures based on professional judgement [2400(R).A81]

Designing review procedures

- In a review engagement, the practitioner considers the responses received to inquiries in light of the understanding obtained as well as the results of analytical procedures performed.
- There is no requirement to substantiate information received in response to inquiries or to conduct any particular type of research unless the practitioner becomes aware of a matters/(s) that causes the practitioner to believe that the financial statements may be materially misstated.

Designing review procedures

- In this case, additional procedures would be required to confirm or dispel whether a material misstatement has occurred.
- The most effective review engagement procedures will generally consist of inquiry and analysis.
- However where it would be more efficient to perform a substantive procedure instead of inquiry (such as a proof in total on a particular balance, to confirm 100 percent of annual sales, or to confirm a receivable balance or a bank loan), this is entirely acceptable.

DESIGNING REVIEW PROCEDURES

- Responses to well designed questions, may serve a dual purpose, in that it helps the practitioner obtain an understanding of the entity, but also serves as a major part of the evidence required.

Designed procedures shall address:

- All material items in the financial statements, including disclosures,
- Financial statement areas where material misstatements are likely to arise
- Specified areas (such as related party transactions, going concern, fraud, and non-compliance)
- Requirements established under applicable laws and regulations

INQUIRY PROCEDURES SHALL INCLUDE:

The practitioner's inquiries of management and others within the entity, as appropriate, shall include the following:

- How management makes the significant accounting estimates required under the applicable financial reporting framework.
- The identification of related parties and related party transactions, including the purpose of those transactions.
- Whether there are significant, unusual or complex transactions, events or matters that have affected or may affect the entity's financial statements, including:

INQUIRY PROCEDURES SHALL INCLUDE:

- Significant changes in the entity's business activities or operations
- Significant changes to the terms of contracts that materially affect the entity's financial statements, including terms of finance and debt contracts or covenants.
- Significant journal entries or other adjustments to the financial statements.
- Significant transactions occurring or recognized near the end of the reporting period.
- The status of any uncorrected misstatements identified during previous engagements.

INQUIRY PROCEDURES SHALL INCLUDE:

- Effects or possible implications for the entity of transactions or relationships with related parties.

INQUIRY PROCEDURES SHALL INCLUDE:

The existence of any actual, suspected or alleged

- Fraud or illegal acts affecting the entity
- Non-compliance with provisions of laws and regulations recognized to have a direct effect on the determination and disclosures in the financial statements, such as tax and regulations
- Whether management has identified and addressed 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.

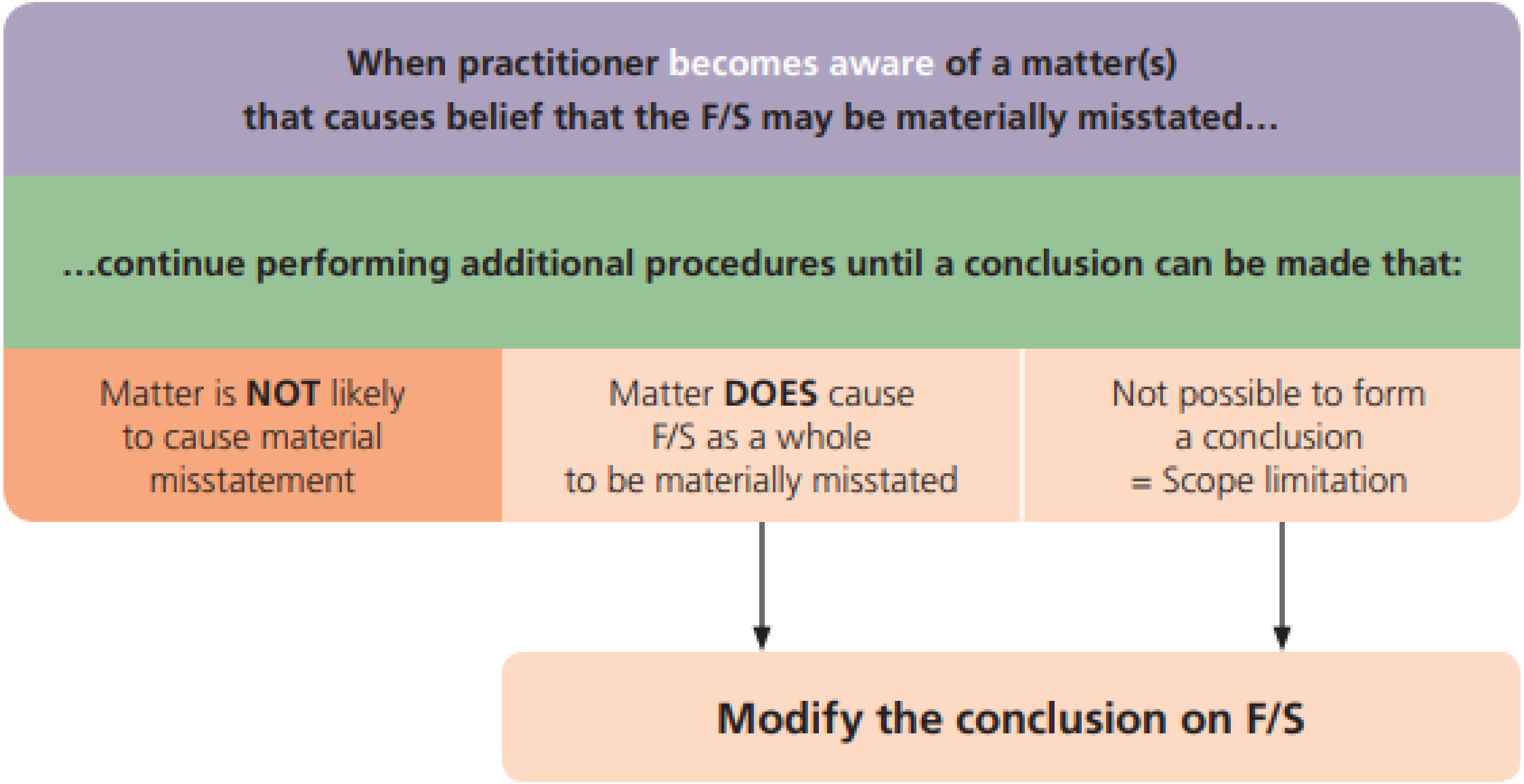
INQUIRY PROCEDURES SHALL INCLUDE:

- \- The basis for management's assessment of the entity's ability to continue as a going concern
- Wheter there are 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.

TYPES OF ANALYTICAL PROCEDURES MAY INCLUDE
(SEE TABLE)

Method	Purpose
Simple Comparisons	Establish the relationships among both financial and nonfinancial data. For example, if it is known that the cost of electric power went up during the year, it would be expected that the cost of obtaining that power would also have gone up. If not, the reason (such as power savings implemented during the period) would be investigated.
Comparisons to Expected Values	Assess financial results for consistency with expected values. For example, if the price of the products being sold was increased during the period, there should also be an increase in gross margin as compared to prior periods unless, of course, purchase costs have also risen.
Comparisons with Expectations Developed from Other Sources	Compare recorded amounts, or ratios developed from recorded amounts, to expectations developed from information obtained from relevant sources. For example, if an entity builds 50 electric motors in a year and sells them each for approximately €10,000, the recorded amount for sales revenue should be close to €500,000. If not, the reasons would be investigated.
Complex Analysis Using Statistical Techniques, such as Regression Analysis	Examine relationships between a dependent variable and one or more independent variables. For example, regression analysis can be used to calculate costs of sales over a certain period (such as three years) using several components of cost of sales and sales data for various product types. The costs of sales could then be determined for a given level of sales by product for the current year based on the mathematical relationship between the different variables.

ADDITIONAL PROCEDURES:



PRACTICAL EXAMPLES

P. 69 - 90 of the IFAC Guide to Review Engagements gives tons of examples.

MODULE 5

CONCLUDING & REPORTING ON THE REVIEW ENGAGEMENT

Concluding & Reporting

Consider the impact of:

- Uncorrected misstatements identified during the review (current year & carried forward from previous year); and
- Qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgements.
- Evaluate uncorrected misstatements against final overall materiality
- Unmodified or Modified Opinion
- SAAPS 3 Illustrative Reports

AN UNMODIFIED CONCLUSION IS APPROPRIATE WHEN:

- Limited assurance has been obtained
- No material misstatements or omissions identified
- As a whole financial statements have been prepared in all material respects in accordance with the Acceptable Financial Reporting Framework.

A MODIFIED OPINION IS APPROPRIATE WHEN:

Modified Conclusion	Nature	Pervasive?
Qualified	Material Misstatement / known omission / Scope limitation	Not pervasive
Adverse	Material Misstatement / known omission /	Pervasive
Disclaimer	Scope limitation resulting in inability to obtain sufficient appropriate evidence	Pervasive

AGGREGATION AND EVALUATION:

Consider Point

Misstatements

Most quantitative misstatements can be aggregated so that the overall impact on the financial statements can be evaluated. However, some misstatements (such as incomplete or inaccurate financial statement disclosures) and qualitative findings (such as the possible existence of fraud) cannot be aggregated. These misstatements shall be documented and evaluated on an individual basis. However, their impact on the financial statements as a whole should also be assessed when performing the overall review.

WITHDRAWAL FROM ENGAGEMENT:

The practitioner shall withdraw from the engagement if the following conditions are present:

● Due to a limitation on the scope of the review resulting in the practitioner being unable to obtain sufficient appropriate evidence to form a conclusion;
● The possible effects on the financial statements of undetected misstatements are material and pervasive; and
● Withdrawal is possible under applicable law or regulation.

Reportable Irregularity:

Companies Act Regulation 29 (1) (b):

- **Reportable irregularity means any act or omission committed by any person responsible for the management of an company, which:**
  - Unlawfully has caused material financial loss to any member, shareholder, creditor of the company in respect of his, her or its dealings with that entity; or
  - is fraudulent or amounts to theft; or
  - Causes or has caused the company to trade under insolvent circumstances.

Reportable Irregularity:

Duties of Independent Reviewer:

- Send report to CIPC (include particulars of RI)
- Within 3 days Notify management in writing (include report to CIPC)
- Within 20 days Discuss with management and send 2nd letter to CIPC
  - No RI taking place
  - Suspected RI no longer taking place with adequate steps to prevent or recover any loss as result thereof.
  - RI is continuing

APPENDIX A

RESOURCES FOR THE REVIEW ENGAGEMENT

RESOURCES

- IFAC Guide to Review Engagements https://www.ifac.org/knowledge-gateway/supporting-international-standards/publications/guide-review-engagements

- The SAICA Companies Act Guide https://www.saica.co.za/Portals/0/Technical/LegalAndGovernance/Companies%20Act/saica-original-service_july2012.final.pdf

Resources

- CIPC Guidance note on Reporting RI for Independent Review https://www.saica.co.za/Technical/LegalandGovernance/CIPC/CIPCGuidancenotes/tabid/3093/language/en-ZA/Default.aspx

- CIPC Guidance note on the application of section 22 of the Companies Act https://www.saica.co.za/Portals/0/Technical/LegalAndGovernance/Guidance_note_Application_of_Section_22_Companies_Act_71.pdf

RESOURCES

- Illustrative Reportable Irregularity letters for Independent Reviews
  https://www.saica.co.za/Portals/0/Technical/financial-reporting/Circular_3_of_2016_Illustrative_Reportable_Irregu_Letters_for_Independent_Reviews.pdf

- Engagement Letter for Review Engagement
  https://www.saica.co.za/Portals/0/Technical/financial-reporting/Circular_3_2017_Engagement_Letter_for_Review_Engagements.pdf

QUESTIONS

Thank you
for your participation