

**Engagements to Review Historical Financial Statements—
Issues and IAASB Task Force Proposals****Introduction**

1. This Paper sets out the Task Force’s deliberations and its recommendations regarding remaining significant issues in the revision of ISRE 2400.¹
2. A clean version of proposed ISRE 2400, including amendments made since the September IAASB meeting, is presented in **Agenda Item 3-B**. Throughout this Paper, references to the proposed revised ISRE should be read as meaning the proposed revised ISRE presented in Agenda Item 3-B. (**Agenda Item 3-C** shows the amendments made to the version presented at the September 2010 IAASB meeting in markup.)
3. **Agenda Item 3-D** contains a flowchart that illustrates the following key aspects of performance of a review engagement under ISRE 2400:
 - (i) Engagement acceptance/continuance considerations;
 - (ii) Performance of the review and forming the conclusion; and
 - (iii) Reporting.

Significant Issues**The Practitioner’s Objectives**

4. The IAASB discussed the statement of the practitioner’s objectives at its meetings in July and September 2010. The IAASB asked the Task Force to draft the statement of the practitioner’s objectives to reflect more clearly how the review is performed, with particular reference to the procedures that drive performance of the engagement and deliver evidence as the basis for the practitioner’s conclusion on the financial statements.
5. A key influence on the development of the statement of the practitioner’s objectives is that the conclusion expressed in the engagement is required to be in the form, “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.”
6. The Task Force is strongly of the view that, since a review is an assurance engagement, it is the evidence obtained that provides the basis for the practitioner’s conclusion on the financial statements rather than the procedures themselves. Accordingly the Task Force believes that the practitioner’s objectives need to be clear that the conclusion is to be expressed on the basis of evidence that is sufficient and appropriate. The Task Force’s view is that these descriptive terms, which are set out in the *International Framework for Assurance Engagements* (‘the Framework’) as applying to all assurance engagements, are

¹ International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Historical Financial Information*

important to practitioners' understanding of the basis that is to be obtained for the conclusion.

7. Some IAASB members expressed concern at the September IAASB meeting that use of the term 'sufficient appropriate evidence' might be overstating the evidential basis that underpins a review engagement. The Task Force understands their argument to be that the evidence obtained in a review is more the consequence of performing procedures, which are limited, rather than the driver of performance of the engagement and the practitioner's conclusion. They noted that under the proposed ISRE 2400 the practitioner is only required to perform procedures that are necessary in the practitioner's judgment to be able to form a conclusion on the financial statements expressed in the required form. Accordingly some IAASB members believe that, by design, it is performance of those procedures rather than obtaining "sufficient appropriate evidence" that drives the review engagement. The expressed concern is that use of 'sufficient appropriate evidence' in the objectives may blur readers' understanding of one of the key points of difference between the review and the audit, which is that the basis of the practitioner's conclusion in a review is the performance of procedures that are, by intention, limited.
8. The Task Force, on the other hand, is unanimously of the view that performance of procedures cannot of itself be the basis for the practitioner's conclusion – it is the evidence obtained from performing the procedures that provides that basis, and that evidence must be sufficient and appropriate for the type of conclusion expressed.
9. Paragraph 15 of proposed ISRE 2400 attempts to strike a balance between these two points of view by including reference to both procedures and 'sufficient appropriate evidence'. The Task Force reached a consensus view, after considering the arguments outlined above, that the practitioner's objective should include obtaining the appropriate evidential basis ('sufficient appropriate evidence') to be able to express the conclusion as required. The reference to performing procedures in the objective also recognizes the procedures-based nature of the engagement. Further, the objectives are read in the context of the introductory description of the engagement to review financial statements set out in paragraphs 1-9 of proposed ISRE 2400. Paragraphs 8 and 9 explain the interrelationship between the procedures performed, evidence and forming a conclusion in a review.

Matters for IAASB Consideration

1. Does the IAASB agree with the proposed statement of the practitioner's objectives in a review?
2. Does the IAASB agree with the Task Force's view that readers' interpretation of the phrase 'sufficient appropriate evidence' in a review is conditioned by the explanation of the nature of the engagement in the introductory section, that is the review is performed primarily using inquiry and analytical procedures, but also further procedures when warranted?

Performance of the Review Engagement

Practitioner's Awareness of Areas where the Financial Statements are Likely to be Materially Misstated

10. At the September 2010 meeting, two IAASB members commented on the need for the proposed revised standard to be clearer about how the practitioner performs the review on taking account of risk of material misstatement in the financial statements.
11. In earlier discussions of this issue the IAASB agreed with the Task Force's view that the practitioner applies what can be described as a 'risk aware' approach, but that a review does not include the comprehensive risk assessment process required for an audit. The approach to risk in a review engagement is focused on the need to:
 - Establish understanding of the risk of material misstatement in the financial statements at a level appropriate for the engagement, i.e. reducing the engagement risk to an acceptable level in view of the limited assurance nature of the engagement; and
 - Use that understanding to design and perform procedures (inquiry and analytical procedures) that address areas of the financial statements that the practitioner considers likely to be materially misstated.

Developing Awareness of Risk of Material Misstatement

12. The central requirements concerning risk of material misstatement are that the practitioner should:
 - (a) Identify areas where the financial statements *are likely* to be materially misstated, based on the practitioner's understanding of the entity and its environment, and of the applicable financial reporting framework (paragraph 44 of proposed ISRE 2400);
 - (b) Design and perform inquiry and analytical procedures that address those areas (paragraphs 46 and 58 of proposed ISRE 2400); and
 - (c) If the results of those procedures give the practitioner cause to believe that the financial statements may be materially misstated, design and perform further procedures to be able to either determine that the financial statements are materially misstated, or conclude that the financial statements are not likely to be materially misstated (paragraph 59 of proposed ISRE 2400).
13. The Task Force believes that the threshold established by 'likely' is appropriate in a review as it is broadly commensurate with the overall intention that the practitioner needs to be 'risk-aware' to design and perform procedures for the review. It is also appropriate in view of the fact that no formal risk assessment is performed – the practitioner simply takes account of any identified areas where the financial statements are likely to be materially misstatement based on what is evident from the practitioner's understanding, and then designs and performs procedures with that perspective in mind.

14. See paragraphs 44, 46 and 58–59, and application paragraphs A86 and A97–A101 in proposed ISRE 2400.

Developing Understanding of Risk of Material Misstatement– An Iterative Approach

15. An IAASB member expressed the view that the proposed ISRE needs to be clearer on how the practitioner (a) identifies areas where the financial statements are likely to be materially misstated, to be able to design and perform procedures to address those areas, and (b) also then uses information obtained from the results of the procedures performed to update the practitioner’s understanding and awareness of areas where the financial statements are likely to be materially misstated.
16. The Task Force agrees that the iterative nature of the process by which the practitioner identifies areas where the financial statements are likely to be materially misstated needs to be clearer in the proposed ISRE. Accordingly, paragraph 45(b) of the proposed ISRE includes the requirement that the practitioner’s understanding applied to the design of procedures for the review is updated in the course of the engagement by information obtained from the results of the procedures performed. An application paragraph explains the iterative nature of this process.
17. See paragraphs 45 and A82 in proposed ISRE 2400.

Matters for IAASB Consideration

3. Does the IAASB agree that the approach the practitioner should follow to address the risk of material misstatement in financial statements when performing a review is explained adequately in proposed ISRE 2400?
4. Does the IAASB agree that the term ‘likely’ establishes the appropriate level for identification of areas of material misstatement in a review?

Performing Further Procedures

18. At the September 2010, IAASB meeting the Board agreed that, with regard to the different forms of limited assurance engagements currently under development as IAASB Engagement Standards, there needs to be a reasonably consistent approach to consideration of:
 - (a) The point the at which practitioner needs to perform further procedures in a limited assurance engagement; and
 - (b) The nature and extent of the practitioner’s response when the need for further procedures is apparent in performance of the engagement.

Board members’ views were obtained in a survey carried out in October (please refer to Agenda Item 2 for this IAASB meeting).

19. The Task Force considered the survey results from the perspective of developing an approach to these matters for reviews performed under proposed ISRE 2400 that is as consistent as possible with the approach to be applied in other types of limited assurance engagements. The Task Force’s thinking was developed with reference to the subject matter information of the

ISRE 2400 review; that is, historical financial statements prepared in accordance with an applicable financial reporting framework.

20. The Task Force’s conclusion in each of these areas is set out below.

Conditions that Trigger the Need to Perform Further Procedures

21. The Task Force believes that there are two situations that prompt the practitioner to undertake further procedures in a review.
- Firstly, when results obtained from the inquiry and analytical procedures required in paragraphs 46 to 57 of proposed ISRE 2400 do not yield sufficient appropriate evidence to address areas where, in the practitioner’s judgment, the financial statements are likely to be materially misstated (paragraph 58 of proposed ISRE 2400); and
 - Secondly, when the practitioner becomes aware of matters that cause the practitioner to believe the financial statements may be materially misstated (paragraph 59 of proposed ISRE 2400).
22. These are two distinct situations, in the Task Force’s view. The situation addressed in paragraph 59 of proposed ISRE 2400 is that situation contemplated in the IAASB limited assurance survey referred to previously. The Task Force accepts the majority view identified in the survey that the condition triggering performance of further procedures should be pitched at the level indicated by the word ‘*may*’. The Task Force strongly believes that it is important that the point triggering further procedures should be conditioned by the practitioner’s professional judgment. Accordingly, the Task Force supports use of the proposed wording, “*if the practitioner becomes aware of matters that cause the practitioner to believe that the financial statements may be materially misstated.*”
23. The situation addressed in paragraph 58 of proposed ISRE 2400 is one that the Task Force also considers as warranting further procedures in a review of historical financial statements. The Task Force believes that condition triggering further procedures outlined in paragraph 58 should be explicitly required in proposed ISRE 2400 as opposed to being implicitly assumed. The rationale for doing so is that it is important in a review of historical financial statements that, as a minimum, the practitioner performs procedures to adequately address identified areas of likely material misstatements. In more conceptual terms, this is an essential part of reducing the engagement risk to an acceptable level. To the extent that inquiry and analytical review procedures do not accomplish that, the practitioner needs to extend the work effort even absent any indication from results of the inquiries or analytical procedures already performed that the financial statements may actually be materially misstated.
24. The term ‘further procedures’ is defined in proposed ISRE 2400 (paragraph 18(b)) in line with the conditions triggering those procedures as explained above.
25. See paragraphs 9, 18(b), 58–59, and application paragraph A86 in proposed ISRE 2400.

Nature and Extent of the Practitioner's Response—Further Procedures

26. The limited assurance survey (see Agenda Item 2) revealed a majority view among Board members that when a condition triggering further procedures exists, the practitioner should extend the work effort applied to affected items to be able to either:
 - (a) Determine that a material misstatement does actually exist (that is, by obtaining evidence of its existence); or
 - (b) Conclude that the financial statements are not likely to be materially misstated.
27. The Task Force agrees that if the practitioner believes that the conclusion that the financial statements are materially misstated is warranted (that is, a qualified or adverse conclusion), the qualification needs to be supported by sufficient appropriate evidence to be able to give what is essentially a positively-stated conclusion on the existence of a material misstatement.
28. In that case, however, the practitioner's conclusion on the financial statements as a whole remains in the nature of the limited assurance conclusion as required by the proposed ISRE. The additional work effort applied surrounding existence of a material misstatement does not change the nature of the engagement from a review to an engagement with a higher level of assurance provided on the financial statements as a whole.
29. See paragraph 58 and application material paragraphs A 97 – A100 of proposed ISRE 2400.

Scope Limitations

30. There is a third situation where, due to a lack of evidence, the practitioner is unable to form a conclusion on the financial statements, including as to whether a material misstatement exists. This includes inability to carry out procedures that the practitioner considers necessary to obtain sufficient appropriate evidence regarding matters that give rise to the need for further procedures. These situations give rise to a scope limitation in a review engagement, the implication of which is ordinarily that the practitioner is not able to complete the review.
31. The Task Force agrees with the results of the limited assurance survey regarding scope limitations, as reflected in application material paragraph A101 and paragraph 72 of proposed ISRE 2400.
32. See paragraphs 16 and 72 and application material paragraph A101 in proposed ISRE 2400.

Matters for IAASB Consideration

5. Does the IAASB agree with the approach in proposed ISRE 2400 to address:
 - (a) Conditions that trigger the need for further procedures in a review of historical financial statements?
 - (b) The required response from the practitioner when the practitioner identifies that those conditions exist, including when the practitioner becomes aware that the financial statements may be materially misstated?
 - (c) Identification of scope limitations and the practitioner's response in those situations?

Flowchart Illustrating the Review Engagement under Proposed ISRE 2400

33. At the September 2010 IAASB meeting, most IAASB members expressed support for inclusion of a flowchart as a further appendix to ISRE 2400, as helpful additional material to assist understanding of how a review engagement is performed.
34. The Task Force has amended the earlier version of the flowchart presented in the agenda materials for the September IAASB meeting, to reflect more closely the key phases in a review under proposed ISRE 2400.
35. The revised flowchart presented in **Agenda Item 3-D** is for the Board's consideration.

Matters for IAASB Consideration

6. Does the IAASB consider that the flowchart in Agenda Item 3-D reflects the key phases of a review performed under ISRE 2400?
7. Does the IAASB support inclusion of the flowchart, with any amendments needed, in an Appendix to proposed ISRE 2400?

Illustrative Procedures for a Review under Proposed ISRE 2400

36. As noted in the IAASB discussion of draft revised ISRE 2400 in September 2010, the Task Force is aware from comments provided by some stakeholders and national standard setters, including the IFAC Small and Medium Practices Committee (SMPC), that the list of illustrative procedures included as appendix material in extant ISRE 2400 (Appendix 2) is being used by practitioners. The Task Force was asked to consider including the list in some form in proposed ISRE 2400. The list of procedures from extant ISRE is included in the Appendix to this paper, for information.
37. The Task Force has discussed whether the extant list of illustrative procedures would need to be changed, amended, updated or added to for use in the context of proposed ISRE 2400. For example:
 - The extant list of procedures takes a view on the types of financial statement line items that are used for the purpose of illustrating different types of procedures. Would the same types of financial statement items be addressed in an appendix for proposed ISRE 2400, or would different items be selected?
 - Should the list also include illustrative general types of procedures, that is, not all procedures listed being directed to particular financial statement line items?
 - Should the illustrative procedures deal only with inquiry and analytical procedures?
 - Should the list address procedures needed for financial statements prepared using different types of financial reporting frameworks (e.g. fair presentation frameworks vs. compliance frameworks), or financial statements prepared for different purposes (e.g. general purpose financial statements vs. special purpose financial statements)?
38. The Task Force has concluded on a preliminary basis that the illustrative procedures would, as a minimum, need to be updated to align with the approach in proposed ISRE

2400. The Task Force has not reached a view, however, on how illustrative procedures can be presented appropriately in the context of a principles-based standard. Procedures performed will likely differ quite significantly in reviews performed for different types and sizes of entities. Any set of illustrative procedures presented would be presented as possible procedures for consideration by practitioners when performing individual review engagements. There is risk associated with inclusion of illustrative procedures in the proposed ISRE that practitioners might use or regulators might view as a mandatory checklist which, if followed, would result in compliance with the requirements of the standard.
39. The Task Force needs time to consider other approaches before simply replicating what has previously been done in extant 2400. For example, there may be scope to develop an International Review Practice Statement to give guidance on procedures which could reduce the complications the Task Force perceives with purely attempting to edit the appendix material.
40. The usefulness of the extant list of procedures seems to be largely in the context of reviews of smaller entities carried out by practitioners in small or medium practices (SMPs). Consequently, the SMPC could be consulted on development of a practice guide for practitioners that would use the idea of illustrative procedures from extant ISRE 2400 and package those procedures as more comprehensive guidance addressing different review situations.
41. The Task Force has not formed any conclusion about this, but recognizes that the opportunity should be taken to ask for respondents views on these questions in the Explanatory Memorandum for the Exposure Draft of proposed ISRE 2400. This would guide thinking about development of either a guidance publication or other form of implementation support material for ISRE 2400 reviews that may have greater overall usefulness than an illustrative list of procedures appended to the standard.

Matters for IAASB Consideration

8. Does the IAASB have a view on the most effective way to provide guidance to assist implementation of proposed ISRE 2400 by practitioners, whether in the form of illustrative procedures or otherwise?
9. Does the IAASB agree that since the illustrative material in extant ISRE 2400 is mainly useful to SMPs, and largely in the context of a review of a smaller entity, a more comprehensive approach to providing guidance aimed at SMPs would hold more benefit than the option of illustrative procedures? (For example, more comprehensive guidance might address different industry sectors (such as for-profit and/or not-for-profit) and also cover the situation of financial statements intended for either general purpose or special purpose financial reporting)?
10. Does the IAASB agree with the Task Force’s recommendation to ask for respondents views on this issue in the Explanatory Memorandum for proposed ISRE 2400?

Provisional Effective Date

42. The Task Force recommends that the effective date for the proposed revised ISRE be specified as follows:

“This ISRS is effective for reviews of financial statements for periods ending on or after [date].”

This form of stating the effective date is in line with the Board’s decisions for the revision of the International Standards on Auditing. In the Task Force’s view the same approach is also appropriate for proposed revised ISRE 2400.

Adoption and Implementation

43. The Task Force believes an estimated 18-24 months will likely be a reasonable provision for effective adoption and implementation of the proposed ISRE at the national level, once it is approved as a final standard. This takes account of the fact that the variety of national circumstances that exist in relation to review engagements. In some countries, reviews of financial statements are an established form of assurance engagement with extant national standards. In many other countries the review is not an established service or may not be as common, or there may be no extant national standards for performance of reviews.
44. This anticipated period for adoption and implementation would be signaled in the Explanatory Memorandum and respondents’ input sought. While recognizing that a much extended period for adoption and implementation at the national level is provided with this option, the Task Force recommends that early adoption of the proposed revised ISRE be permitted.

Matters for IAASB Consideration

11. Does the IAASB agree with the Task Force’s recommended form of the effective date for proposed ISRE 2400?
12. The IAASB is asked for its views on the period that would be appropriate for adoption and implementation of the ISRE, when released in final form, at the national level.

Consideration by IAASB of Significant Matters Identified by Task Force

45. In the Task Force’s view, all significant matters the Task Force has identified as a result of its deliberations since the beginning of this project, and the Task Force’s considerations thereon, have been reflected in the issues papers presented to the IAASB at its meetings.

Consideration by IAASB of Need for Further Consultation

46. Based on the Task Force’s deliberations to date, and taking account of the nature of the proposed revisions to ISRE 2400, the Task Force does not believe that there are specific issues on which there is need, prior to exposure, to obtain views (for example, through a public forum or roundtable), or a need to conduct a field test of the application of the proposed revised ISRE.

Extract from Extant ISRE 2400

Appendix 2

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

1. The inquiry and analytical review procedures carried out in a review of financial statements are determined by the practitioner's judgment. The procedures listed below are for illustrative purposes only. It is not intended that all the procedures suggested apply to every review engagement. This Appendix is not intended to serve as a program or checklist in the conduct of a review.

General

2. Discuss terms and scope of the engagement with the client and the engagement team.
3. Prepare an engagement letter setting forth the terms and scope of the engagement.
4. Obtain an understanding of the entity's business activities and the system for recording financial information and preparing financial statements.
5. Inquire whether all financial information is recorded:
 - (a) Completely;
 - (b) Promptly; and
 - (c) After the necessary authorization.
6. Obtain the trial balance and determine whether it agrees with the general ledger and the financial statements.
7. Consider the results of previous audits and review engagements, including accounting adjustments required.
8. Inquire whether there have been any significant changes in the entity from the previous year (e.g., changes in ownership or changes in capital structure).
9. Inquire about the accounting policies and consider whether:
 - (a) They comply with local or international standards;
 - (b) They have been applied appropriately; and
 - (c) They have been applied consistently and, if not, consider whether disclosure has been made of any changes in the accounting policies.
10. Read the minutes of meetings of shareholders, the board of directors and other appropriate committees in order to identify matters that could be important to the review.

11. Inquire if actions taken at shareholder, board of directors or comparable meetings that affect the financial statements have been appropriately reflected therein.
12. Inquire about the existence of transactions with related parties, how such transactions have been accounted for and whether related parties have been properly disclosed.
13. Inquire about contingencies and commitments.
14. Inquire about plans to dispose of major assets or business segments.
15. Obtain the financial statements and discuss them with management.
16. Consider the adequacy of disclosure in the financial statements and their suitability as to classification and presentation.
17. Compare the results shown in the current period financial statements with those shown in financial statements for comparable prior periods and, if available, with budgets and forecasts.
18. Obtain explanations from management for any unusual fluctuations or inconsistencies in the financial statements.
19. Consider the effect of any unadjusted errors – individually and in aggregate. Bring the errors to the attention of management and determine how the unadjusted errors will influence the report on the review.
20. Consider obtaining a representation letter from management.

Cash

21. Obtain the bank reconciliations. Inquire about any old or unusual reconciling items with client personnel.
22. Inquire about transfers between cash accounts for the period before and after the review date.
23. Inquire whether there are any restrictions on cash accounts.

Receivables

24. Inquire about the accounting policies for initially recording trade receivables and determine whether any allowances are given on such transactions.
25. Obtain a schedule of receivables and determine whether the total agrees with the trial balance.
26. Obtain and consider explanations of significant variations in account balances from previous periods or from those anticipated.
27. Obtain an aged analysis of the trade receivables. Inquire about the reason for unusually large accounts, credit balances on accounts or any other unusual balances and inquire about the collectibility of receivables.
28. Discuss with management the classification of receivables, including noncurrent balances, net credit balances and amounts due from shareholders, directors and other related parties in the financial statements.

29. Inquire about the method for identifying “slow payment” accounts and setting allowances for doubtful accounts and consider it for reasonableness.
30. Inquire whether receivables have been pledged, factored or discounted.
31. Inquire about procedures applied to ensure that a proper cutoff of sales transactions and sales returns has been achieved.
32. Inquire 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.
33. Inquire whether any large credits relating to revenue recorded have been issued after the balance sheet date and whether provision has been made for such amounts.

Inventories

34. Obtain the inventory list and determine whether:
 - (a) The total agrees with the balance in the trial balance; and
 - (b) The list is based on a physical count of inventory.
35. Inquire about the method for counting inventory.
36. Where a physical count was not carried out on the balance sheet date, inquire whether:
 - (a) A perpetual inventory system is used and whether periodic comparisons are made with actual quantities on hand; and
 - (b) An integrated cost system is used and whether it has produced reliable information in the past.
37. Discuss adjustments made resulting from the last physical inventory count.
38. Inquire about procedures applied to control cutoff and any inventory movements.
39. Inquire about the basis used in valuing each category of the inventory and, in particular, regarding the elimination of inter-branch profits. Inquire whether inventory is valued at the lower of cost and net realizable value.
40. Consider the consistency with which inventory valuation methods have been applied, including factors such as material, labor and overhead.
41. Compare amounts of major inventory categories with those of prior periods and with those anticipated for the current period. Inquire about major fluctuations and differences.
42. Compare inventory turnover with that in previous periods.
43. Inquire about the method used for identifying slow moving and obsolete inventory and whether such inventory has been accounted for at net realizable value.
44. Inquire whether any of the inventory has been consigned to the entity and, if so, whether adjustments have been made to exclude such goods from inventory.

45. Inquire whether any inventory is pledged, stored at other locations or on consignment to others and consider whether such transactions have been accounted for appropriately.

Investments (Including Associated Companies and Marketable Securities)

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

Property and Depreciation

51. Obtain a schedule of the property indicating the cost and accumulated depreciation and determine whether it agrees with the trial balance.
52. Inquire about the accounting policy applied regarding the provision for depreciation and distinguishing between capital and maintenance items. Consider whether the property has suffered a material, permanent impairment in value.
53. Discuss with management the additions and deletions to property accounts and accounting for gains and losses on sales or retirements. Inquire whether all such transactions have been accounted for.
54. Inquire about the consistency with which the depreciation method and rates have been applied and compare depreciation provisions with prior years.
55. Inquire whether there are any liens on the property.
56. Discuss whether lease agreements have been properly reflected in the financial statements in conformity with current accounting pronouncements.

Prepaid Expenses, Intangibles and Other Assets

57. Obtain schedules identifying the nature of these accounts and discuss with management the recoverability thereof.
58. Inquire about the basis for recording these accounts and the amortization methods used.
59. Compare balances of related expense accounts with those of prior periods and discuss significant variations with management.
60. Discuss the classification between long-term and short-term accounts with management.

Loans Payable

61. Obtain from management a schedule of loans payable and determine whether the total agrees with the trial balance.

62. Inquire whether there are any loans where management has not complied with the provisions of the loan agreement and, if so, inquire as to management's actions and whether appropriate adjustments have been made in the financial statements.
63. Consider the reasonableness of interest expense in relation to loan balances.
64. Inquire whether loans payable are secured.
65. Inquire whether loans payable have been classified between noncurrent and current.

Trade Payables

66. Inquire about the accounting policies for initially recording trade payables and whether the entity is entitled to any allowances given on such transactions.
67. Obtain and consider explanations of significant variations in account balances from previous periods or from those anticipated.
68. Obtain a schedule of trade payables and determine whether the total agrees with the trial balance.
69. Inquire whether balances are reconciled with the creditors' statements and compare with prior period balances. Compare turnover with prior periods.
70. Consider whether there could be material unrecorded liabilities.
71. Inquire whether payables to shareholders, directors and other related parties are separately disclosed.

Accrued and Contingent Liabilities

72. Obtain a schedule of the accrued liabilities and determine whether the total agrees with the trial balance.
73. Compare major balances of related expense accounts with similar accounts for prior periods.
74. Inquire about approvals for such accruals, terms of payment, compliance with terms, collateral and classification.
75. Inquire about the method for determining accrued liabilities.
76. Inquire as to the nature of amounts included in contingent liabilities and commitments.
77. Inquire whether any actual or contingent liabilities exist which have not been recorded in the accounts. If so, discuss with management whether provisions need to be made in the accounts or whether disclosure should be made in the notes to the financial statements.

Income and Other Taxes

78. Inquire from management if there were any events, including disputes with taxation authorities, which could have a significant effect on the taxes payable by the entity.
79. Consider the tax expense in relation to the entity's income for the period.
80. Inquire from management as to the adequacy of the recorded deferred and current tax liabilities including provisions in respect of prior periods.

Subsequent Events

81. Obtain from management the latest interim financial statements and compare them with the financial statements being reviewed or with those for comparable periods from the preceding year.
82. Inquire about events after the balance sheet date that would have a material effect on the financial statements under review and, in particular, inquire whether:
 - (a) Any substantial commitments or uncertainties have arisen subsequent to the balance sheet date;
 - (b) Any significant changes in the share capital, long-term debt or working capital have occurred up to the date of inquiry; and
 - (c) Any unusual adjustments have been made during the period between the balance sheet date and the date of inquiry. Consider the need for adjustments or disclosure in the financial statements.