

STATEMENT 3.250
AUDITING GUIDELINE
REVIEW OF FINANCIAL STATEMENTS

Introduction

1. Paragraph 8 of the Statement of Auditing Standard No. 3.101 "Audit Approach" states that:

'The auditor should carry out such a review of the financial statements as is sufficient, in conjunction with the conclusions drawn from the other audit evidence obtained, to give him a reasonable basis for his opinion on the financial statements.'

This Auditing Guideline, which gives guidance on how that paragraph may be applied, should be read in conjunction with the Explanatory Foreword to Auditing Standards and Guidelines including the Glossary of Terms.

Background

2. The auditor is required to form an opinion on the entity's financial statements as a whole. Having accumulated audit evidence about individual items or groups of items, he should therefore carry out an overall review to determine whether in his opinion:
 - a. the financial statements have been prepared using acceptable accounting policies which have been consistently applied and are appropriate to the entity's business;
 - b. the results of operations, state of affairs and all other information included in the financial statements are compatible with each other and with the auditor's knowledge of the entity;
 - c. there is adequate disclosure of all appropriate matters and the information contained in the financial statements is suitably classified and presented;
 - d. the financial statements comply with all statutory requirements and other regulations relevant to the constitution and activities of that entity;
and ultimately whether:
 - e. the conclusions drawn from the other tests which he has carried out, together with those drawn from his overall review of the financial statements, enable him to form an opinion on the financial statements.

3. Throughout the review the auditor needs to take account of the materiality of the matters under review and the confidence which his other audit work has already given him in the accuracy and completeness of the information contained in the financial statements.
4. Skill and imagination are required to recognise the matters to be examined in carrying out an overall review and sound judgement is needed to interpret the information obtained. Accordingly the review should not be delegated to someone lacking the necessary experience and skill.
5. An overall review of the financial statements based on the auditor's knowledge of the business of the entity is not of itself a sufficient basis for the expression of an audit opinion on those statements. However, it provides valuable support for the conclusions arrived at as a result of his other audit work. In addition apparent inconsistencies could indicate areas in which material errors, omissions or irregularities may have occurred which have not been disclosed by other auditing procedures.

Procedures

Accounting policies

6. The auditor should review the accounting policies adopted by the entity to determine whether such policies:
 - a. comply with Statements of Standard Accounting Practice or, in the absence thereof, are otherwise acceptable;
 - b. are consistent with those of the previous period;
 - c. are consistently applied throughout the entity;
 - d. are disclosed in accordance with the requirements of Statement No. 2.101 (SSAP 1) "Disclosure of Accounting Policies".
7. When considering whether the policies adopted by management are acceptable the auditor should have regard, inter alia, to the policies commonly adopted in particular industries and to policies for which there is substantial authoritative support.

General review

8. The auditor should consider whether the results of operations and the state of affairs of the entity as reported in the financial statements are consistent with his knowledge of the underlying circumstances of the business.

9. In addition to any analytical review procedures carried out during the course of the audit, the auditor should carry out an overall review of the information in the financial statements themselves and compare it with other available data. For such a review to be effective the auditor needs to have sufficient knowledge of the activities of the entity and of the business which it operates to be able to determine whether particular items are abnormal. This background information should be available in the auditor's working papers as a result of his planning and earlier audit procedures.

Presentation and disclosure

10. The auditor should consider the information in the financial statements in order to ensure that the conclusions which a reader might draw from it would be justified and consistent with the circumstances of the entity's business. In particular, he should bear in mind the need for the financial statements to reflect the substance of the underlying transactions and balances and not merely their form. He should consider also whether the presentation adopted in the financial statements may have been unduly influenced by management's desire to present facts in a favourable or unfavourable light.
11. The auditor should also consider whether the financial statements adequately reflect the information and explanations obtained and conclusions reached on particular aspects of the audit.
12. The auditor should consider whether his review has disclosed any new factors which affect the presentation or accounting policies adopted. For example it may become apparent, as a result of his review of the financial statements as a whole, that the entity has liquidity problems and the auditor should consider whether or not the financial statements should have been prepared on a going concern basis.

Compliance with regulations

13. In reviewing the financial statements to ensure compliance with the requirements of statutes, Statements of Standard Accounting Practice and other applicable regulations, the auditor may find it helpful to use a checklist or other aide-memoire.