

Conducting Review engagements

October 2025



What went wrong?

Category	Nature of observation	What can be done
A&C	Issues with engagement A&C, including not considering or documenting independence or ethical requirements	Use Odoo and complete CaseWare template
Initial review engagements	Failure to obtain sufficient appropriate evidence regarding opening balances	Scoping in opening balance
Inadequate documentation	<ul style="list-style-type: none"> • Understanding the entity: Nature of entity, its operations, ownership, investments group structure • Areas of material misstatements • Understanding of accounting system • Adequacy of data from accounting system 	Use CaseWare forms
Identification of key areas	Not identifying key areas in the financial statements where material misstatements may arise, resulting in poorly focused review procedures.	Better understanding of business and circumstances of the client. Discussion among team
Inadequate documentation related to inquiry and analytical procedures	Revenue, gross margins, percentage of completion, inventory, and related party accounts	Use CaseWare forms
Inquiries documentation	Estimates, commitments, contractual obligations, contingencies, nonmonetary items, material transactions especially towards year end, fraud inquiries, use of service organization, inquiry about fraud communicated to client by service organization	Use CaseWare forms
Inadequate disclosures	<ul style="list-style-type: none"> • Major revenue categories • Financial Instruments: Terms and conditions of instruments – concentration of risk • Related parties – nature of relationship • Issued share capital 	Disclosure checklist, ensure disclosures as per framework

What is a review engagement?

Review Engagements – Difference from Audit Engagement and Compilation Engagement (NTR)

Audit – the most comprehensive type of assurance service and requires the auditor **to express an opinion** on a Company's financial statements prepared in accordance with applicable reporting framework.

Review – is a more limited assurance service, the accountant **does not express an opinion**.

Compilation – involves compiling a company's financial information into general-purpose financial statements, such as balance sheets and income statements. **No assurance since no opinion is expressed.**

Audit versus Review Engagements

	Audit	Review
Assurance	Reasonable assurance	Limited assurance
Procedures to Obtain Sufficient Appropriate Evidence		
Risk assessment procedures (RA)	Required	Limited to Understanding of the entity and its environment
Test of controls (ToC)	When required by the CAS or when the auditor has chosen to do so	Not required
Test of details (ToD)	In most cases	Not required
Substantive analytical procedures (SAP)	If reliable expectations can be built	Usually not required
Procedures to Obtain Sufficient Appropriate Evidence	Can be used in RA, TOC, ToD and SAP: <ul style="list-style-type: none"> - Inspection - Observation - External Confirmation - Recalculation - Reperformance - Analytical Procedures - Inquiry 	Limited to: <ul style="list-style-type: none"> - Inquiry (written or oral) - Analytical Procedures

Conducting review engagements

Review engagements – Planning

Scope of Review Engagement

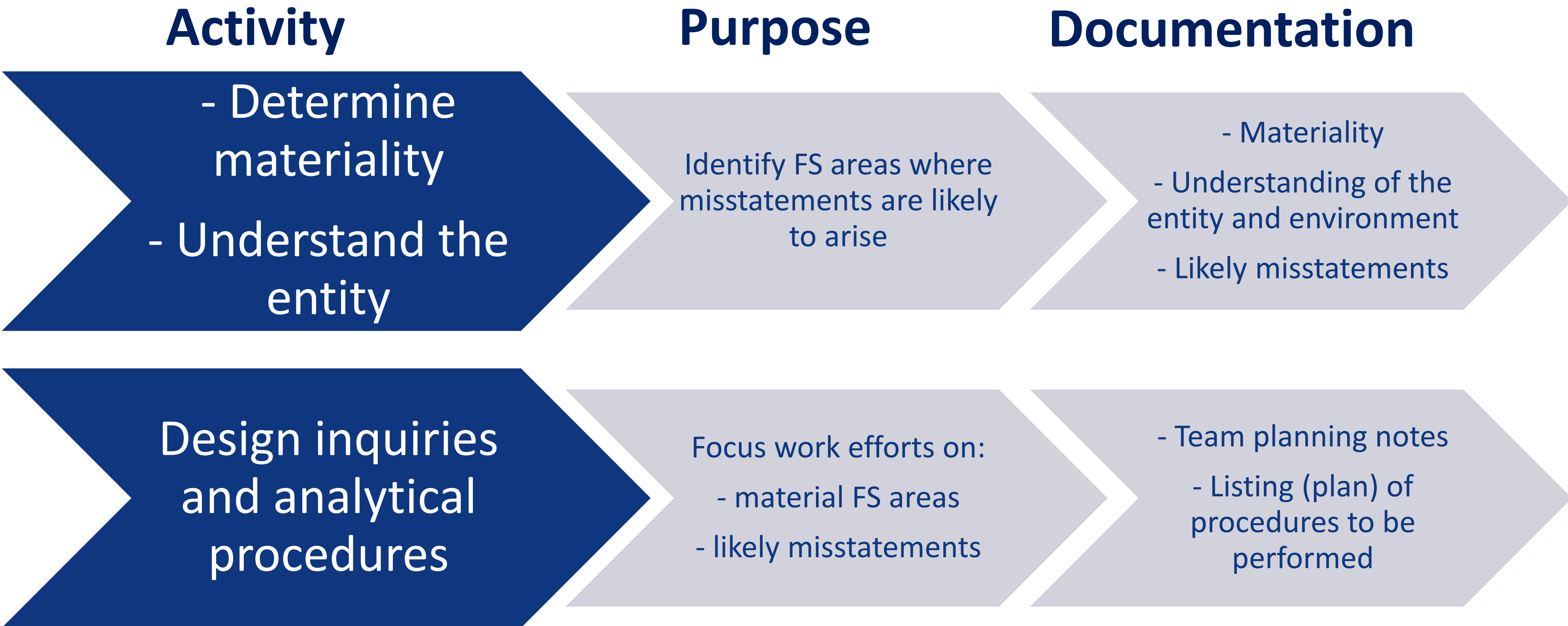
Inquiry and Analytical Procedures

- ALL areas above materiality
- Areas where material misstatements are likely to arise

Additional Procedures

- Where the practitioner becomes aware that the FS may be materially misstated

Review engagements – Planning



Question

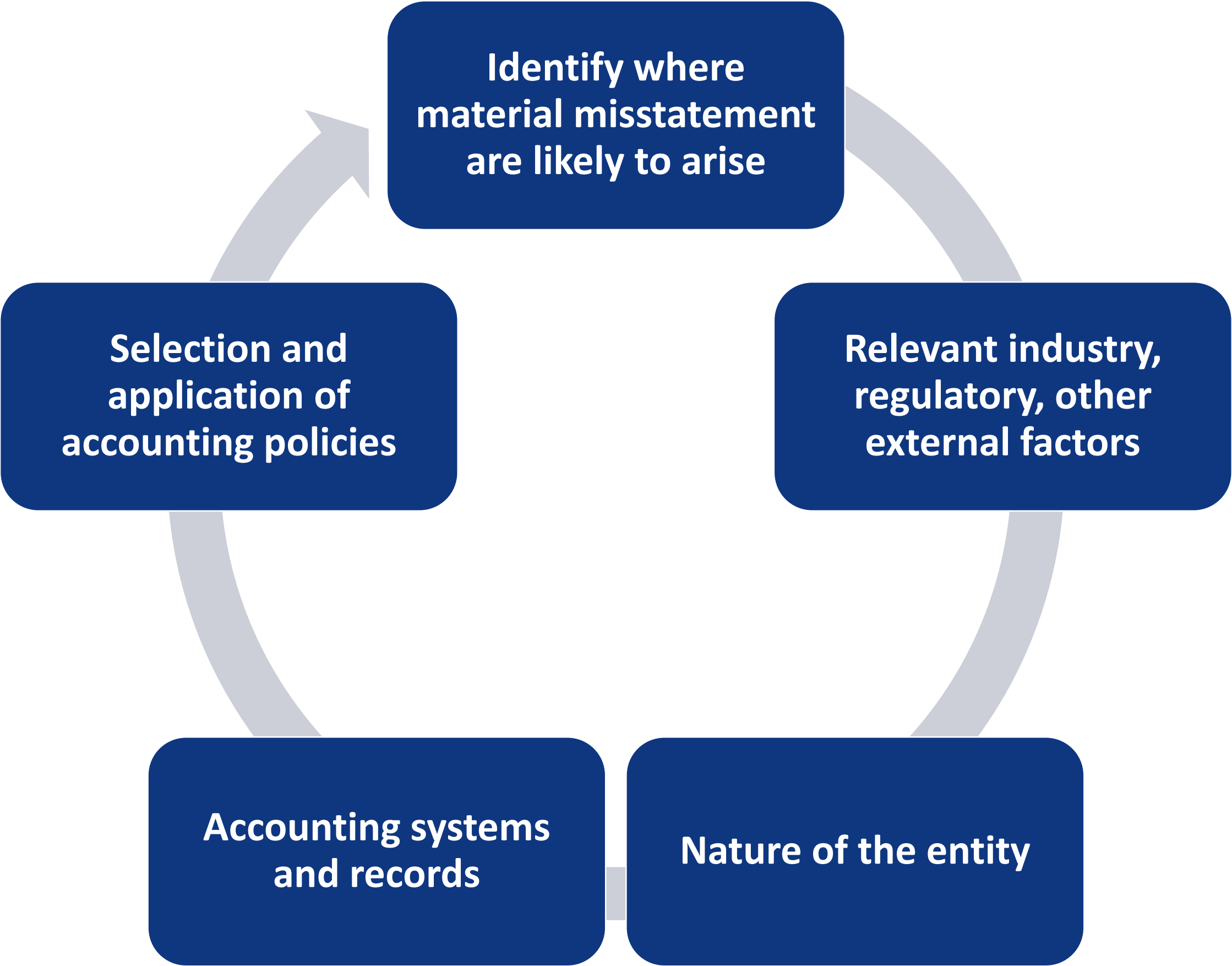
**How materiality determination for
a review engagement is different
from that of an audit
engagement?**

Answer

**No performance materiality
required.**

Review engagements – Planning

What is the purpose of Understanding the entity



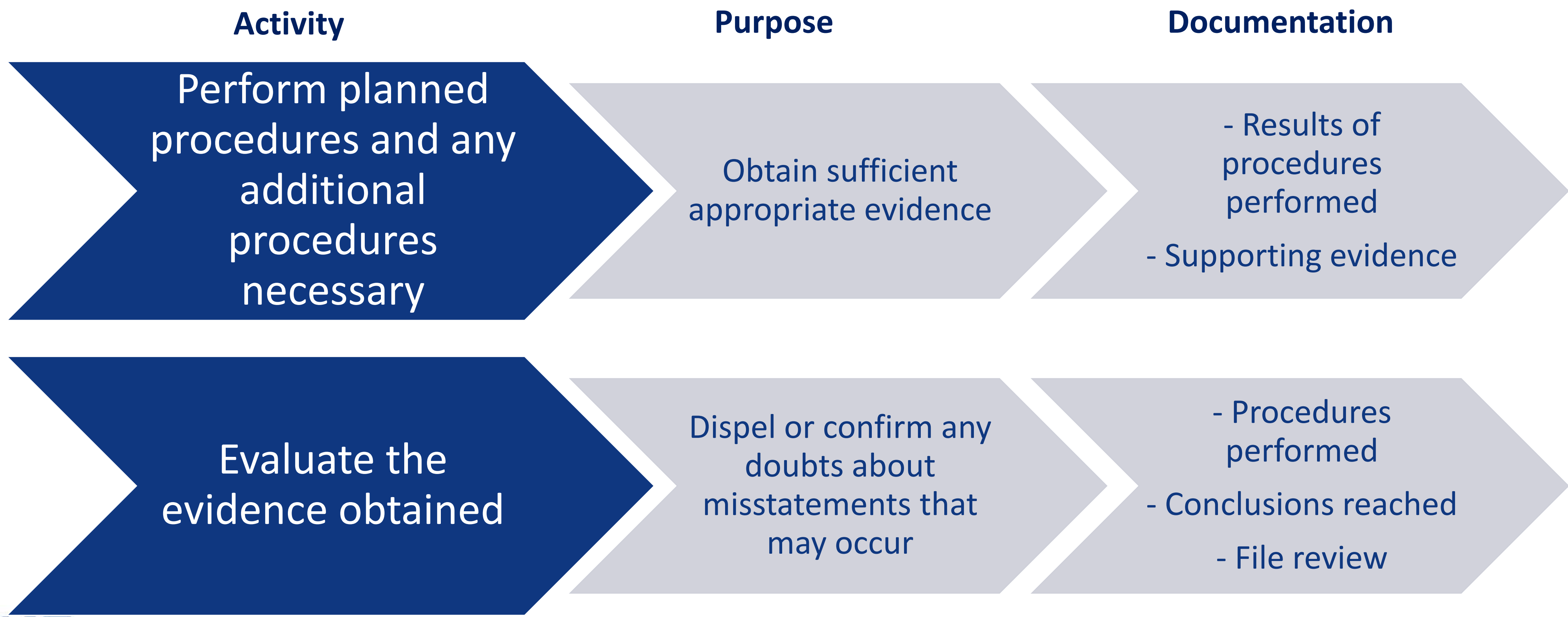
Review engagements – Planning

Design inquiries that also assist in understanding the entity - Required areas to address:

- *Significant accounting estimates*
- *Related parties and transactions*
- *Significant, unusual or complex transaction, events, or matters*
- *Fraud or illegal acts and noncompliance with laws and regulations*
- *Events occurring between the date of the F/S and the date of the practitioner's report that require adjustment/disclosure in FS*
- *Going-concern uncertainties*
- *Material commitments, contractual obligations, or contingencies*
- *Material nonmonetary transactions or transactions for no consideration*

Design analytical procedures based on the understanding obtained through inquiries

Review engagements – Execution



Review engagements – Execution

- Responses are usually vague without understanding the issue - generally responses are comments like "Done" "completed" without explanations
- Inquiries are not conducted from relevant personnel with appropriate understanding
- Responses to inquiries are not corroborated
- Meaningful relationships are not identified and used for designing analytical procedures
- Revenue analytics need to be robust and designed according to operations of the entity
- Use of non-financial information in developing analytics – units sold, units produced, occupancy rates, etc

Review engagements – Execution

An FMCG company has following sales patterns:

	2024	2023
Revenue -	\$3,979,665	\$3,766,010

Variance - \$213,655

Variance % - 5.67%

Reason – The company deals with a large consumer base and the increase reflect normal increase in revenue.

Review engagements – Execution

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Variance % -	5.67%	

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Quarterly breakdown of revenue earned:

	2024		2023
Q1 2024	850,124	Q1 2023	925,916
Q2 2024	815,632	Q2 2023	945,994
Q3 2024	799,065	Q3 2023	955,643
Q4 2024	1,514,844	Q4 2023	938,457
	<u>3,979,665</u>		<u>3,766,010</u>

Question

**What potential issues you noted?
How are you going to addressed
them?**

**Remember!! It is a REVIEW
engagement**

Scenario # 1 – Design analytical procedures

A mid-sized manufacturing client produces industrial parts. The review team is assessing the reasonableness of revenue and cost of sales.

- Examples of analytical procedures
- What relationships do we typically expect?
- What other information can help?
- From whom relevant inquiries can be conducted

Scenario # 1 – Design analytical procedures

Analytical Procedure:

- Compare **units sold** (non-financial) × **average selling price** to **recorded revenue**.
- Reconcile **production data** (from production logs) with **changes in inventory** and **cost of goods sold**.

Relationship Tested:

Units Produced + Opening Inventory – Closing Inventory ≈ Units Sold

Units Sold × Average Selling Price ≈ Revenue

Example Finding:

Production increased 15% but sales only rose 2%, and finished goods inventory grew 30%. This may indicate **slow-moving stock or overstatement of sales near year-end**.

Scenario # 2 – Design analytical procedures

Client develops residential buildings. The review team is verifying revenue recognized based on project completion.

- Examples of analytical procedures
- What relationships do we typically expect?
- What other information can help?
- From whom relevant inquiries can be conducted

Scenario # 2 – Design analytical procedures

Analytical Procedure:

Compare **total square footage completed** (non-financial) × **average contract price per sq. ft.** to **reported revenue**.

Correlate **percentage completion data** (from project engineers) with **costs incurred to date**.

Relationship Tested:

$$\text{Revenue} \approx \text{Total Sq. Ft. Completed} \times \text{Avg. Price per Sq. Ft.}$$

Example Finding:

Revenue grew 40%, but completed square footage rose only 10%. Possible **premature revenue recognition**.

Scenario # 3 – Design analytical procedures

A logistics company operates a fleet of trucks.

- Examples of analytical procedures
- What relationships do we typically expect?
- What other information can help?
- From whom relevant inquiries can be conducted

Scenario # 3 – Design analytical procedures

Analytical Procedure:

Compare **total kilometers driven** × **average fuel consumption rate** × **average fuel cost** to **fuel expense recorded**.

Relationship Tested:

$$\text{Fuel Expense} \approx \text{Km Driven} \times \text{Fuel Consumption Rate} \times \text{Fuel Cost}$$

Example Finding:

Fuel expense rose 20% while kilometers driven declined 5% — may suggest **unrecorded fuel rebates or leakage**.

Scenario # 4 – Design analytical procedures

Distribution Company - Freight and delivery costs have increased.

- Examples of analytical procedures
- What relationships do we typically expect?
- What other information can help?
- From whom relevant inquiries can be conducted

Scenario # 4 – Design analytical procedures

Analytical Procedure:

Compare **freight cost per shipment** and **per ton/km** to historical levels.

Cross-check **fuel cost trends** with market rates.

Relationship Tested:

$$\text{Freight Cost per Unit} = \text{Total Freight Cost} / \text{Units Shipped}$$

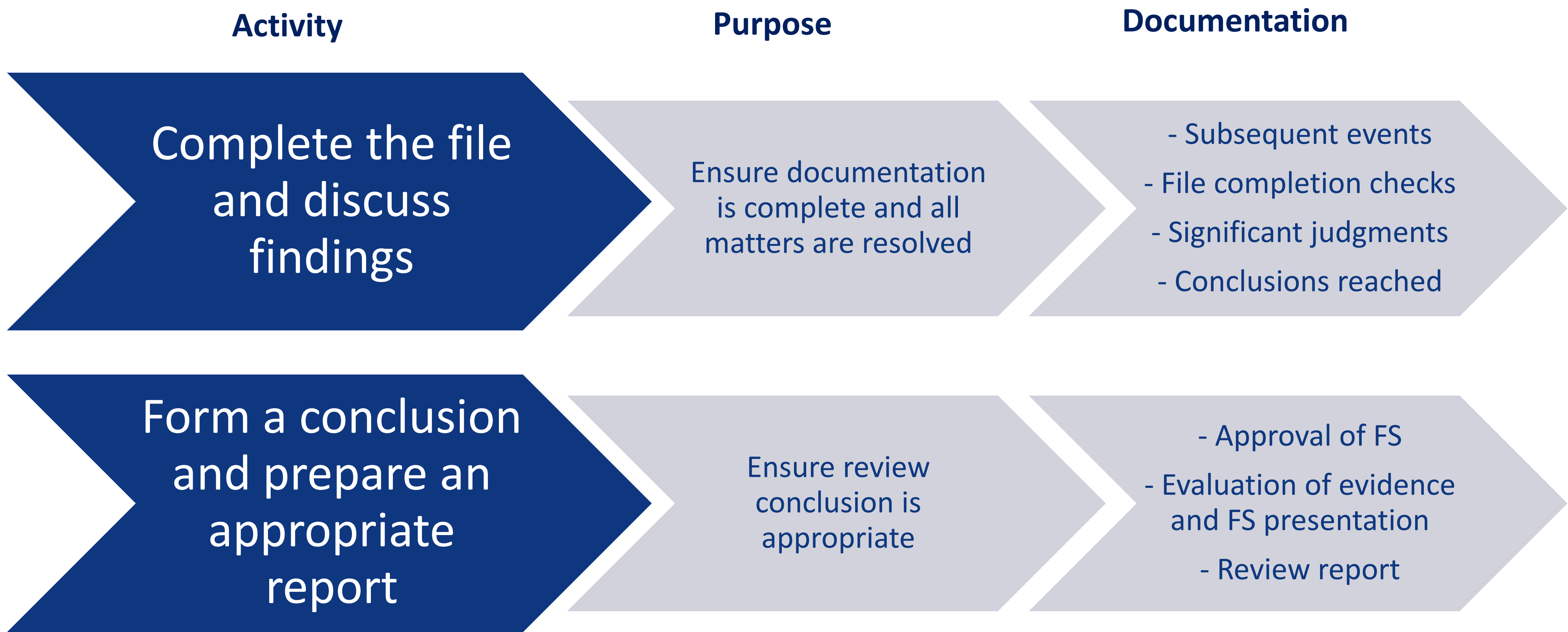
Example Finding:

Freight cost per unit increased 25% while shipment volume was flat — may reveal **rate increases, route inefficiencies, or booking misclassification.**

Common challenges

- Cash basis of accounting vs accrual
- % of completion vs invoice basis and cash basis
- Holdbacks and deferred revenue
- No accruals recorded
- Cut off issues revenue and expenses
- Shareholder loan account
- Identifying related party transactions and accounting for these.

Review engagements – Completion and Reporting



Any questions??

Thank you

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