

Response Due Date September 30, 2003

**Proposed International
Standard on Auditing**

**“Review of Interim Financial
Information Performed by
the Auditor of the Entity”**

Issued for Comment
by the International
Federation of
Accountants



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REQUEST FOR COMMENTS

This exposure draft of the International Auditing and Assurance Standards Board (IAASB) was approved for publication in June 2003. The proposed International Standard on Auditing (ISA) may be modified in light of comments received before being issued in final form.

Consideration of Specific Issues

The IAASB welcomes comments on the exposure draft. In responding to the exposure draft commentators are requested to refer to the relevant paragraphs within the proposed ISA. The responses should include the reasons for the comments, including specific suggestions for any proposed changes to wording.

The proposed International Standard on Auditing applies to engagements to review interim financial information when all of the following criteria are met:

- (a) The review is performed by the entity's auditor;
- (b) The interim financial information is prepared in accordance with an identified financial reporting framework;
- (c) The entity is required or permitted under legislation, regulation, or equivalent authority to issue such interim financial information; and
- (d) The audited annual financial statements of the entity are required to be filed with a regulatory authority, or equivalent, and are publicly available.

Scope of the Proposed ISA

The proposed ISA deals with a review of interim financial information performed by a practitioner who is the auditor of the entity. This differs from a review performed in accordance with ISA 910 "Engagements to Review Financial Statements," which may be performed by a practitioner who is not the auditor of the entity. Through performing the audit of the annual financial statements, the entity's auditor has obtained an understanding of the entity and its environment, including its internal control (as contemplated in the proposed ISA issued by the IAASB in October 2002, "Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement"), which is updated through inquiries made in the course of the review of the interim financial information. This understanding assists the auditor to focus the inquiries to be made and the analytical procedures to be applied and therefore assists the auditor in satisfying the requirements of certain regulatory authorities in the completion of a review of interim financial information on a timely basis.

IAASB is proposing to retain ISA 910. ISA 910 is broader in scope than this proposed ISA as it applies to reviews of annual financial statements and interim financial information that do not meet the criteria above.

The IAASB welcomes views as to whether the scope of the proposed ISA is appropriate, or whether the IAASB should expand the proposed ISA to include all reviews of financial information performed by the entity's auditor, and limit ISA 910 to only those reviews performed by a practitioner who is not the entity's auditor.

Conclusion Expressed in the Written Report

For purposes of the proposed ISA, interim financial information is financial information that is prepared in accordance with an identified financial reporting framework and contains either a

complete or condensed set of financial statements for a period that is shorter than the entity's financial year.

If the interim financial information is comprised of a condensed set of financial statements, the written report contains a statement about whether the auditor is aware of any material modification that should be made to the interim financial information for it to be in accordance with the identified financial reporting framework.

If the interim financial information is comprised of a complete set of financial statements, the written report contains a statement about whether the auditor is aware of any material modification that should be made to the interim financial information for it to give a true and fair view (or be presented fairly in all material respects) in accordance with the identified financial reporting framework.

The IAASB welcomes views as to the appropriateness of different conclusions to be provided in the written report depending on whether condensed or complete financial statements are being prepared by the entity.

Response Due Date

Comments should be submitted so as to be received by **September 30, 2003**, preferably by e-mail or on computer disk, or in writing. All comments will be considered a matter for the public record. Comments should be addressed to:

Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Email responses should be sent to: Edcomments@ifac.org

The approved text of this exposure draft is published in the English language. In order to achieve maximum exposure and feedback, IFAC encourages the reproduction of this publication in any format.

PROPOSED INTERNATIONAL STANDARD ON AUDITING
REVIEW OF INTERIM FINANCIAL INFORMATION PERFORMED BY THE
AUDITOR OF THE ENTITY

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International Standards on Auditing (ISAs) are to be applied in the audit of financial statements. ISAs are also to be applied, adapted as necessary, to the audit of other information and to related services.

ISAs contain the basic principles and essential procedures (identified in bold type black lettering) together with related guidance in the form of explanatory and other material. The basic principles and essential procedures are to be interpreted in the context of the explanatory and other material that provide guidance for their application.

To understand and apply the basic principles and essential procedures together with the related guidance, it is necessary to consider the whole text of the ISA including explanatory and other material contained in the ISA, not just that text which is black lettered.

In exceptional circumstances, an auditor may judge it necessary to depart from an ISA in order to more effectively achieve the objective of an audit. When such a situation arises, the auditor should be prepared to justify the departure.

ISAs need only be applied to material matters.

The Public Sector Perspective (PSP) issued by the Public Sector Committee of the International Federation of Accountants is set out at the end of an ISA. Where no PSP is added, the ISA is applicable in all material respects to the public sector.

Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on the auditor’s professional responsibilities, and on the form and content of the report that the auditor issues, when the auditor undertakes an engagement to review the interim financial information of an audit client. For purposes of this ISA, interim financial information is financial information that is prepared in accordance with an identified financial reporting framework¹ and contains either a complete or a condensed set of financial statements for a period that is shorter than the entity’s financial year. The term “auditor” is used throughout this ISA, not because the auditor is performing an audit function but because the scope of this ISA is limited to a review performed by the auditor of the entity.
2. This ISA applies to an engagement performed by an entity’s auditor to review interim financial information that is issued by an entity in accordance with legislation or regulation, or equivalent authority, when all of the following criteria are met:
 - (a) The interim financial information is prepared in accordance with an identified financial reporting framework;
 - (b) The entity is required or permitted under legislation, regulation, or equivalent authority to issue such interim financial information; and
 - (c) The audited annual financial statements of the entity are required to be filed with a regulatory authority, or equivalent, and are publicly available.
3. In some jurisdictions, legislation or regulation, or equivalent authority may require that a review of the interim financial information of the entity be performed by its auditor. In other jurisdictions, there may be no such review requirement, but those charged with governance may request that the auditor perform a review of the interim financial information.
4. A review in accordance with this ISA may be performed only by a practitioner who is the auditor of the entity. This differs from a review in accordance with ISA 910 “Engagements to Review Financial Statements,” which may be performed by a practitioner who is not the auditor of the entity. Through performing the audit of the annual financial statements, the entity’s auditor has obtained an understanding of the entity and its environment, including its internal control. This understanding, which is updated through inquiries made in the course of the review of the interim financial information, assists the auditor to focus the inquiries to be made and the analytical procedures to be applied. A practitioner who has recently been appointed auditor of the entity obtains the understanding of the entity and its environment, including its internal control, before performing a review of interim financial information in accordance with this ISA.
5. The auditor’s conclusion in the review report is expressed in the negative form and the wording differs depending upon whether the interim financial information subject to review is comprised of a condensed set of financial statements or a complete set of financial statements.

General Principles of a Review of Interim Financial Information

6. **The auditor should comply with the requirements of Parts A and B of the IFAC Code of Ethics for Professional Accountants.** These ethical requirements govern the auditor’s professional responsibilities in the following areas: independence, integrity, objectivity,

¹ For example, International Financial Reporting Standards as issued by the International Accounting Standards Board.

professional competence and due care, confidentiality, professional behavior and technical standards.

7. **The auditor should implement those quality control procedures that are, in the context of the policies and procedures of the firm, appropriate to a review of interim financial information.** These quality control procedures relate to leadership and responsibilities, acceptance and continuance of client relationships and specific engagements, human resources, engagement performance, engagement quality control review and monitoring.²
8. **The auditor should plan and perform the review with an attitude of professional skepticism recognizing that circumstances may exist that cause the interim financial information to require a material modification for it to be in accordance with an identified financial reporting framework.** An attitude of professional skepticism is necessary throughout the review for the auditor to reduce the risk of overlooking suspicious circumstances, of overgeneralizing when drawing conclusions from inquiries, and of using faulty assumptions in determining the nature and extent of analytical procedures and evaluating the results thereof.

Objective of an Engagement to Review Interim Financial Information

9. **The objective of an engagement to review interim financial information is to enable the auditor to conclude whether, on the basis of the analytical procedures applied and inquiries made, anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared in all material respects in accordance with an identified financial reporting framework.**
10. The objective of a review of interim financial information differs significantly from that of an audit conducted in accordance with ISAs. A review of interim financial information does not provide a basis for expressing an opinion whether the financial information gives a true and fair view, or is presented fairly in all material respects, in accordance with an identified financial reporting framework, within the bounds of reasonable assurance. In a review of interim financial information the auditor reduces to a moderate level the risk of expressing an inappropriate conclusion when the interim financial information is materially misstated. The review provides the auditor with a basis to report whether the auditor is aware of any material modification to be made to the interim financial information for it to be in accordance with an identified financial reporting framework. A review consists primarily of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. A review may bring significant matters affecting the interim financial information to the auditor's attention, but it does not provide assurance that the auditor will become aware of any or all significant matters that might be identified in an audit.

Agreeing the Terms of the Engagement

11. **The auditor and the client should agree on the terms of the engagement.**
12. The agreed terms of the engagement are ordinarily recorded in an engagement letter; alternatively, the auditor records the agreed terms in writing and forwards them to the client. Such a communication helps to avoid misunderstandings regarding the level of assurance provided, the scope of the review, management's responsibilities, the extent of the auditor's

² This paragraph is consistent with the requirements contained in the exposure draft of the proposed ISA 220 "Quality Control for Audit Engagements."

responsibilities and the nature of the report. The communication ordinarily covers the following matters:

- The objective of a review of interim financial information, which is to enable the auditor to conclude whether, on the basis of the analytical procedures applied and the inquiries made, anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared in all material respects in accordance with the identified financial reporting framework.
- The scope of the review, including reference to the fact that the review of interim financial information consists primarily of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters and does not, ordinarily, contemplate corroboration of the information obtained and does not provide assurance that the auditor will become aware of any or all significant matters that might be identified in an audit.
- The scope of a review is substantially less than the scope of an audit conducted in accordance with ISAs, the objective of which is to express an opinion whether the financial statements give a true and fair view, or are presented fairly in all material respects, in accordance with the identified financial reporting framework.
- Management's responsibility for the interim financial information.
- Management's responsibility for establishing and maintaining effective internal control.
- Management's responsibility for making all financial records and related information available to the auditor.
- Management's agreement to provide written representations to the auditor to confirm representations made by management orally during the review, as well as representations that are implicit in the entity's records.
- The anticipated form and content of the report to be issued, including the identity of the addressee of the report.
- Management's agreement that it will include the review report in any document containing the interim financial information, or will indicate where such a report can be obtained, where management states that such interim financial information has been reviewed by an independent public accountant.

Understanding the Entity and its Environment, Including its Internal Control

13. **The auditor should have a sufficient understanding of the entity and its environment, including its internal control, as it relates to the preparation of both annual and interim financial information, to plan and conduct the engagement so as to be able to:**
- (a) **Identify the types of potential material misstatement and consider the likelihood of their occurrence; and**
 - (b) **Select the inquiries and analytical procedures that will provide the auditor with a basis for reporting whether the auditor is aware of any material modification that should be made to the financial information for it to conform with the identified financial reporting framework.**

14. The auditor who has audited the entity's financial statements for one or more annual periods will have obtained an understanding of the entity and its environment, including its internal control as it relates to the preparation of annual financial information that was sufficient to conduct the audit. In planning a review of interim financial information, the auditor performs procedures to update this understanding. The auditor also obtains a sufficient understanding of internal control as it relates to the preparation of interim financial information as it may differ from internal control as it relates to annual financial information, for example, a greater use of estimation methods in the determination of interim financial measurements.
15. The auditor performs procedures to determine the inquiries to be made and the analytical procedures to be applied, and to identify the particular events, transactions or assertions to which inquiries may be directed or analytical procedures applied. Such procedures ordinarily include:
- Reading the documentation of the preceding year's audit and of reviews of prior interim period(s) of the current year and corresponding interim and year-to-date interim period(s) of the prior year to the extent necessary, based on the auditor's judgment, to enable the auditor to identify matters that may affect the current-period interim financial information.
 - Considering any significant risks, including the risk of management override of controls that were identified in the audit of the prior year's financial statements.
 - Reading the most recent annual and comparable prior period interim financial information.
 - Considering materiality to assist in determining the nature and extent of the procedures to be performed and evaluating the effect of misstatements, taking into account the identified financial reporting framework.
 - Considering the nature of any corrected material misstatements and any identified uncorrected immaterial misstatements in the prior year's financial statements.
 - Considering those significant financial accounting and reporting matters that may be of continuing significance such as weaknesses in internal control.
 - Considering the results of any audit procedures performed with respect to the current year's financial statements.
 - Inquiring of management about the results of management's assessment of the risk that the interim financial information may be materially misstated as a result of fraud.
 - Inquiring of management about the effect of changes in the entity's business activities.
 - Inquiring of management about any significant changes in internal control and, if there has been a significant change in internal control, the potential effect on the preparation of interim financial information.
16. The auditor determines the nature of review procedures, if any, to be performed for subsidiaries, divisions or branches. Factors to be considered include the materiality of, and risk of misstatement in, the interim financial information associated with subsidiaries, divisions or branches, the extent to which management control is centralized or decentralized, and the effectiveness of the control environment.
17. **In order to plan and conduct the review of interim financial information, an auditor who has recently been appointed as auditor of the entity should obtain an understanding of the**

entity and its environment, including its internal control, as it relates to the preparation of both annual and interim financial information.

18. Obtaining this understanding as it relates to the preparation of annual financial information is an essential part of planning and performing an audit in accordance with ISAs. The auditor also obtains a sufficient understanding of internal control as it relates to the preparation of interim financial information. This understanding enables the auditor to focus the inquiries made and the analytical procedures applied in performing a review of interim financial information in accordance with this ISA. To assist in obtaining that understanding, the auditor ordinarily makes inquiries of the predecessor auditor and ordinarily reviews the predecessor auditor's documentation for the preceding annual audit and for any prior interim periods in the current year, that have been reviewed by the predecessor auditor. In doing so, the auditor considers the nature of any corrected misstatements, and any uncorrected misstatements aggregated by the auditor, any significant risks, including the risk of management override of controls and significant accounting and any reporting matters that may be of continuing significance, such as weaknesses in internal control. If the predecessor auditor does not respond to the auditor's inquiries or does not provide access to the documentation, the auditor uses alternative procedures to obtain the required understanding.

Procedures for a Review of Interim Financial Information

19. **The auditor should perform a review of the interim financial information with the objective of providing the auditor with a basis for reporting whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared in all material respects in accordance with the identified financial reporting framework. Such a review should consist primarily of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters.**
20. A review does not ordinarily contemplate tests of the accounting records through inspection, observation or confirmation. Procedures for performing a review of interim financial information generally are limited to applying analytical procedures and making inquiries of persons responsible for financial and accounting matters, rather than corroborating information obtained concerning significant accounting matters relating to the interim financial information. The auditor's understanding of the entity and its environment, including its internal control, the results of the risk assessments relating to the preceding audit and the auditor's consideration of materiality as it relates to the interim financial information, influences the inquiries made and analytical procedures applied. For example, if the auditor becomes aware of a significant change in the entity's control activities at a particular location, the auditor may consider:
- (a) Making additional inquiries, such as inquiring whether management monitored the changes and considered whether they were operating as intended; or
 - (b) Applying analytical procedures with a more precise expectation.
21. The auditor ordinarily performs the following procedures:
- Reading the minutes of the meetings of shareholders, those charged with governance and other appropriate committees to identify matters that may affect the interim financial information and inquiring about matters dealt with at meetings for which minutes are not available, that may affect the interim financial information.

- Considering the effect, if any, of matters giving rise to modification of the audit or review report, accounting adjustments or unadjusted misstatements, at the time of the previous audit or reviews.
- Communicating, where appropriate, with other auditors who are performing a review of the interim financial information of the reporting entity's significant subsidiaries or associates.
- Inquiring of members of management responsible for financial and accounting matters about the following:
 - Whether the interim financial information has been prepared in accordance with the identified financial reporting framework.
 - Whether related party transactions have been appropriately accounted for and disclosed in the interim financial information.
 - Whether there have been any changes in accounting principles or in the methods of applying them.
 - Whether there have been any new transactions that have necessitated the application of a new accounting principle.
 - Whether the interim financial information contains any known uncorrected misstatements.
 - Unusual or complex situations that may have an effect on the interim financial information such as a business combination or disposal of a segment of the business.
 - Significant assumptions that are relevant to the fair value measurement or disclosures and management's intention and ability to carry out specific courses of action on behalf of the entity.
 - Significant changes in commitments, contractual obligations and contingent liabilities.
 - Compliance with debt covenants.
 - Matters about which questions have arisen in the course of applying the review procedures.
 - Significant transactions occurring in the last several days of the interim period.
 - Knowledge of any fraud that has been perpetrated on the entity or any alleged or suspected fraud involving:
 - Management;
 - Employees who have significant roles in the financial reporting process; or
 - Others, if the fraud could have a material effect on the interim financial information.
 - Knowledge of any allegations of fraudulent financial reporting on the part of the entity received in communications from employees, former employees, financial analysts or others.
 - Knowledge of any actual or possible noncompliance with laws and regulations whose effects could have a material effect on the interim financial information.

- Applying analytical procedures to the interim financial information to identify and provide a basis for inquiry about relationships and individual items that appear to be unusual. Appendix 1 to this ISA contains examples of analytical procedures the auditor may consider when performing a review of interim financial information.
 - Reading the interim financial information to consider whether, on the basis of information coming to the auditor’s attention, the interim financial information is not prepared in accordance with the identified financial reporting framework.
22. Many of the aforementioned review procedures may be performed before or simultaneously with the entity’s preparation of the interim financial information. For example, it may be practicable to update the understanding of the entity and its environment, including its internal control, and begin reading applicable minutes before the end of the interim period. Performing some of the review procedures earlier in the interim period also permits early identification and consideration of significant accounting matters affecting the interim financial information.
 23. The auditor performing the review of interim financial information is also engaged to perform an audit of the annual financial statements of the entity. For convenience and efficiency, certain audit procedures may be performed concurrently with the review of interim financial information. For example, information gained from reading the minutes of the board of directors in connection with the review of the interim financial information also may be used for the annual audit. There may also be significant or unusual transactions that occurred during the interim period under review for which auditing procedures that would need to be performed for the purpose of the audit of the annual financial statements could be performed, to the extent practicable, at the time of the interim review, for example, business combinations, restructurings, or significant revenue transactions.
 24. A review of interim financial information does not contemplate corroborating inquiries about litigation or claims; consequently it is ordinarily not necessary to carry out procedures in order to become aware of any litigation and claims involving the entity that may have a material effect on the interim financial information. However, if the auditor becomes aware of information that leads the auditor to question whether the interim financial information departs from the identified financial reporting framework with respect to litigation or claims, and the auditor believes the entity’s lawyer may have information concerning that question, direct communication with the entity’s lawyer concerning the specific question is appropriate.
 25. **The auditor should obtain evidence that the interim financial information agrees or reconciles with the accounting records.** The auditor may obtain this evidence by tracing the interim financial information to:
 - (a) The accounting records, such as the general ledger;
 - (b) A consolidating schedule derived from the accounting records; or
 - (c) Other supporting data in the entity’s records.

The auditor considers inquiring of management as to the process by which the financial information has been prepared and the reliability of the records to which the interim financial information was traced or reconciled.

26. **The auditor should inquire whether management has identified all events up to the date of the review report that may require adjustment to or disclosure in the interim financial**

information. It is not necessary for the auditor to perform procedures to identify events occurring after the date of the review report.

27. **The auditor should inquire whether management has changed its assessment of the entity's ability to continue as a going concern. When, as the result of this inquiry or other procedures, the auditor becomes aware of events or conditions which may cast significant doubt on the entity's ability to continue as a going concern the auditor should:**
- (a) **Inquire of management as to its plans for future actions based on its going concern assessment; and**
 - (b) **Consider the adequacy of the disclosure about such matters in the interim financial information.**
28. Events or conditions which may cast significant doubt on the entity's ability to continue as a going concern may have existed at the date of the annual financial statements or may be identified as a result of inquiries of management or in the course of performing other procedures. When the auditor becomes aware of such events or conditions the auditor inquires of management as to its plans for future action, such as its plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital. The auditor also considers the adequacy of the disclosure about such matters in the interim financial information. However, it is not ordinarily necessary for the auditor to corroborate the feasibility of management's plans and consider whether the outcome of these plans will improve the situation.
29. **When the auditor becomes aware of information that leads the auditor to question whether a material modification should be made for the interim financial information to be in accordance with the identified financial reporting framework, the auditor should make additional inquiries or perform other procedures sufficient to enable the auditor to report.** For example, if the auditor's review procedures lead the auditor to question whether a significant sales transaction is recorded in accordance with the identified financial reporting framework, the auditor performs additional procedures, such as discussing the terms of the transaction with senior marketing and accounting personnel or reading the sales contract, to resolve the auditor's questions.

Evaluation of Misstatements

30. A review of interim financial information, in contrast to an audit-level engagement, is not designed to obtain reasonable assurance that the interim financial information is free from material misstatement. However, misstatements identified by the auditor or brought to the auditor's attention, including inadequate disclosures, are evaluated individually and in the aggregate to determine whether a material modification is required to be made to the interim financial information for it to be in accordance with the identified financial reporting framework.
31. The auditor exercises professional judgment in evaluating the materiality of any misstatements that the entity has not corrected. The auditor considers matters such as the nature, cause and amount of the misstatements, whether the misstatements originated in the preceding year or interim period of the current year, materiality judgments made in conjunction with the current and prior year's annual audit and the potential effect of the misstatements on future interim or annual periods.

32. The auditor may designate an amount below which misstatements need not be accumulated, because the auditor expects that the accumulation of such amounts clearly would not have a material effect on the interim financial information. In so doing, the auditor considers the fact that the determination of materiality involves quantitative as well as qualitative considerations and those misstatements of a relatively small amount could nevertheless have a material effect on the interim financial information.

Management Representations

33. **The auditor should obtain written representations from management on matters material to the interim financial information.**

34. The written representations obtained from management ordinarily include matters such as:
- (a) It acknowledges its responsibility for the implementation and operations of accounting and internal control systems that are designed to prevent and detect fraud and error;
 - (b) The interim financial information is prepared and presented in accordance with the identified financial reporting framework;
 - (c) It believes the effect of those uncorrected misstatements aggregated by the auditor during the review are immaterial, both individually and in the aggregate, to the interim financial information taken as a whole. A summary of such items is included in or attached to the written representations;
 - (d) It has disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to management that may have affected the entity;
 - (e) It has disclosed to the auditor the results of its assessment of the risk that the interim financial information may be materially misstated as a result of fraud;
 - (f) It has disclosed to the auditor all known actual or possible noncompliance with laws and regulations whose effects are to be considered when preparing the interim financial information;
 - (g) It has disclosed to the auditor all significant events that have occurred subsequent to the balance sheet date and through to the date of the review report that may require adjustment to or disclosure in the interim financial information;
 - (h) Where relevant to the fair value measurements or disclosure, the significant assumptions are reasonable and appropriately reflect management's intention and ability to carry out specific courses of action on behalf of the entity; and
 - (i) The information regarding the identification of related parties is complete and the disclosures in the interim financial information are adequate.

An illustrative management representation letter is set out in Appendix 2 to this ISA.

Auditor's Responsibility for Accompanying Information

35. **The auditor should read the other information that accompanies the interim financial information to consider whether any such information is materially inconsistent with the interim financial information.** If the auditor identifies a material inconsistency with the interim financial information, the auditor determines whether the interim financial information, or the other information that accompanies it, needs to be amended. If an amendment is necessary in the

interim financial information and management refuses to make the amendment, the auditor expresses a qualified conclusion. If an amendment is necessary in the other information that accompanies the interim financial information, and management refuses to make the amendment, the auditor considers including in the review report an emphasis of matter paragraph describing the material inconsistency or the auditor considers taking other actions. If, when reading the other information for the purposes of considering whether there are any material inconsistencies, the auditor becomes aware of an apparent material misstatement of fact (i.e. information, not related to matters appearing in the interim financial information that is incorrectly stated or presented), the auditor discusses this matter with management. For example, management may present alternative measures of earnings that more positively portray financial performance than the interim financial information. If such alternative measures are given excessive prominence, are not clearly defined, or not clearly reconciled to the interim financial information, they are confusing and potentially misleading. If management does not respond appropriately, the auditor informs those charged with governance.

Inability to Complete a Review

36. **When an auditor is unable to complete the review and to issue the review report, the auditor should communicate that information to the appropriate level of management and to those charged with governance.**
37. An auditor does not accept an engagement to review the interim financial information if the auditor's preliminary knowledge of the engagement circumstances indicates that the auditor would be unable to complete the review because there will be a limitation on the scope of the auditor's work.
38. When an auditor is unable to perform the procedures the auditor considers necessary to achieve the objective of a review of interim financial information, or when management does not provide the written representations the auditor believes are necessary, the review will be incomplete. For example, the review would be incomplete if the entity's internal control appears to contain deficiencies so significant that it would be impracticable for the auditor to effectively perform review procedures that would provide a basis for reporting whether the auditor is aware of any material modification that is required for the interim financial information to be in accordance with the identified financial reporting framework. An incomplete review is not an adequate basis for issuing a review report. If the auditor cannot complete the review the auditor considers the professional and legal responsibilities in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the appointment or in some cases to regulatory authorities. Nevertheless, if the auditor has become aware of a material modification that is required for the interim financial information to be in accordance with the identified financial reporting framework the auditor communicates such matters in accordance with the guidance in paragraphs 39 – 41.

Communication

39. **When, as a result of performing the review of interim financial information, the auditor becomes aware of matters that give the auditor reason to believe that material modification should be made to the interim financial information for it to be in accordance with the identified financial reporting framework, the auditor should communicate this matter as soon as practicable to the appropriate level of management.**

40. **When, in the auditor’s judgment, management does not respond appropriately within a reasonable period of time, the auditor should inform those charged with governance.** The communication is made as soon as practicable, either orally or in writing. The auditor’s decision as to, whether to communicate orally or in writing is affected by factors such as the nature, sensitivity and significance of the matter to be communicated and the timing of such communications. If the information is communicated orally the auditor documents the communication.
41. **When, in the auditor’s judgment, those charged with governance do not respond appropriately within a reasonable period of time, the auditor should consider:**
- (a) **Whether to modify the report; or**
 - (b) **The possibility of withdrawing from the engagement; and/or**
 - (c) **The possibility of resigning from the appointment to audit the annual financial statements.**
42. **When, as a result of performing the review of interim financial information, the auditor becomes aware of fraud or noncompliance by the entity with laws and regulations the auditor should communicate the matter to the appropriate level of management.** The determination of which level of management is the appropriate one is affected by the likelihood of collusion or the involvement of a member of management. The auditor also considers the need to report such matters to those charged with governance.
43. **The auditor should communicate relevant matters of governance interest arising from the review of interim financial information to those charged with governance.** As a result of performing the review of the interim financial information, the auditor may become aware of matters that in the opinion of the auditor are both important and relevant to those charged with governance in overseeing the financial reporting and disclosure process. The auditor communicates such matters to those charged with governance.

Reporting the Nature, Extent and Results of the Interim Review

44. **The auditor should provide a written report that contains the following:**
- (a) **An appropriate title.**
 - (b) **An addressee.**
 - (c) **Identification of the interim financial information reviewed.**
 - (d) **A statement of the responsibility of the entity’s management for the preparation of the interim financial information and the responsibility of the auditor for the review of the interim financial information.**
 - (e) **A statement that the review of the interim financial information was conducted in accordance with standards issued by the International Auditing and Assurance Standards Board applicable to a review of interim financial information by the entity’s independent auditor, and that such a review consists primarily of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters.**
 - (f) **A statement that a review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not**

provide assurance that the auditor would become aware of any or all significant matters that might be identified in an audit and that accordingly no audit opinion is expressed.

- (g) **If the interim financial information is comprised of a condensed set of financial statements, a statement about whether the auditor is aware of any material modification that should be made to the interim financial information for it to be in accordance with the identified financial reporting framework (including identifying the country of origin of the financial reporting framework when the framework used is not International Financial Reporting Standards).**
 - (h) **If the interim financial information is comprised of a complete set of financial statements, a statement about whether the auditor is aware of any material modification that should be made to the interim financial information for it to give a true and fair view (or be presented fairly in all material respects) in accordance with the identified financial reporting framework (including identifying the country of origin of the financial reporting framework when the framework used is not International Financial Reporting Standards).**
 - (i) **The date of the report.**
 - (j) **A specific location, which is ordinarily the city where the auditor maintains the office that has responsibility for the review.**
 - (k) **The auditor’s signature.**
45. Illustrative review reports for interim financial information that is comprised of a condensed set of financial statements and interim financial information that is comprised of a complete set of financial statements are set out in Appendix 3 to this ISA.
46. **The auditor should modify the review report and issue a qualified conclusion when a matter has come to the auditor’s attention that causes the auditor to believe that a material modification should be made to the interim financial information for it to be in accordance with the identified financial reporting framework.**
47. If matters have come to the auditor’s attention that cause the auditor to believe that the interim financial information is or may be materially affected by a departure from the identified financial reporting framework, and management does not correct the interim financial information, the auditor modifies the review report. The modification describes the nature of the departure, and if practicable, states the effects on the interim financial information. If the information that the auditor believes is necessary for adequate disclosure is not included in the interim financial information, the auditor modifies the review report and, if practicable, include the necessary information in the review report. The modification to the review report is ordinarily accomplished by adding an explanatory third paragraph to the review report, and qualifying the statement about whether the auditor is aware of any material modification that is required to the interim financial information for it to be in accordance with the identified financial reporting framework. An illustrative modified review report is set out in Appendix 4 to this ISA.
48. In certain circumstances, a review report may be modified, without affecting the auditor’s conclusion, by adding an emphasis of matter paragraph to highlight a matter that is included in a note to the interim financial information that more extensively discusses the matter. The

paragraph would preferably be included after the review conclusion paragraph and ordinarily refers to the fact that the conclusion is not qualified in this respect.

49. **The auditor should modify the review report by adding a paragraph to highlight a material matter regarding a going concern problem.**
50. The auditor may have modified a prior audit or review report by adding a paragraph to highlight a material matter regarding a going concern problem. If the going concern problem still exists, the auditor modifies the review report on the current interim financial information by adding a paragraph to highlight the continued going concern problem. If, as a result of inquiries or other procedures, the auditor becomes aware of events or conditions which may cast significant doubt on the entity's ability to continue as a going concern, the auditor modifies the review report by adding an emphasis of matter paragraph.
51. **The auditor should consider modifying the review report by adding a paragraph to highlight a significant uncertainty (other than a going concern problem) that comes to the auditor's attention, the resolution of which is dependent upon future events and which may affect the interim financial information.**
52. If management has not included the review report in a document containing the interim financial information, or has not indicated where such a report can be obtained, where management states that such interim financial information has been reviewed, the auditor considers seeking legal advice to assist in the determination of the appropriate course of action in the circumstances.
53. If the auditor has issued a modified review report and management issues the interim financial information without including the modified review report in the document containing the interim financial information, the auditor considers seeking legal advice to assist in the determination of the appropriate course of action in the circumstances and the possibility of resigning from the appointment to audit the annual financial statements.

Documentation

54. **The auditor should document matters that are important to support the content of the review report and evidence that the review was carried out in accordance with this ISA.** The documentation ordinarily contains supporting working papers that describe the procedures undertaken, information obtained, and any significant matters considered during the performance of the interim review, including the disposition of such matters. The extent of working papers is a matter of professional judgment.

Effective Date

55. This ISA is effective for the review of interim financial information for periods beginning on or after *[date to be inserted]*.

Appendix 1

Analytical Procedures the Auditor May Consider When Performing a Review of Interim Financial Information

Analytical procedures are designed to identify relationships and individual items that appear to be unusual and that may reflect a material misstatement of the interim financial information. Analytical procedures may include statistical techniques such as trend analysis or regression analysis and may be performed manually or with the use of computer-assisted techniques. Examples of analytical procedures the auditor may consider when performing a review of interim financial information include:

- Comparing the interim financial information with the interim financial information of the immediately preceding interim period, with the interim financial information of the corresponding interim period of the preceding financial year, with the interim financial information that was expected by management for the current period, and with the most recent audited annual financial statements.
- Comparing current interim financial information with anticipated results, such as budgets or forecasts (for example, comparing tax balances and the relationship between the provision for income taxes to pretax income in the current interim financial information with corresponding information in (a) budgets, using expected rates, and (b) financial information for prior periods).³
- Comparing current interim financial information with relevant non-financial information.
- Comparing the recorded amounts, or ratios developed from recorded amounts, to expectations developed by the auditor. The auditor develops such expectations by identifying and applying relationships that are reasonably expected to exist based on the auditor's understanding of the entity and of the industry in which the entity operates.
- Comparing ratios and indicators for the current interim period with those of entities in the same industry.
- Comparing relationships among elements in the current interim financial information with corresponding relationships in the interim financial information of prior periods, for example, expense by type as a percentage of sales, assets by type as a percentage of total assets, and percentage of change in sales to percentage of change in receivables.
- Comparing disaggregated data. The following are examples of how data may be disaggregated.
 - By period, for example, revenue or expense items disaggregated into quarterly, monthly, or weekly amounts.
 - By product line or source of revenue.
 - By location, for example by subsidiary.
 - By attributes of the transaction, for example, revenue generated by designers, architects, or craftsmen.
 - By several attributes of the transaction, for example, sales by product and month.

³ The auditor exercises caution when comparing and evaluating current interim financial information with budgets, forecasts, or other anticipated results because of the inherent lack of precision in estimating the future and susceptibility of such information to manipulation by management to reflect desired interim results.

Appendix 2

Example of a Management Representation Letter

The following letter is not intended to be a standard letter. Representations by management will vary from entity to entity and from one interim period to the next.

(Entity Letterhead)

(To Auditor)

(Date)

Opening paragraph if interim financial information is comprised of condensed financial statements:

This representation letter is provided in connection with your review of the condensed balance sheet of ABC Entity as of March 31, 20X1 and the related condensed statements of income, changes in equity and cash flows for the three-month period then ended for the purposes of determining whether any material modification should be made to this interim financial information for it to be in accordance with (indicate identified financial reporting framework, including identifying the country of origin of the financial reporting framework when the framework used is not International Financial Reporting Standards).

Opening paragraph if interim financial information comprised of complete financial statements:

This representation letter is provided in connection with your review of the balance sheet of ABC Entity as of March 31, 20X1 and the related statements of income, changes in equity and cash flows for the three-month period then ended for the purposes of determining whether any material modification should be made to this interim financial information for it to give a true and fair view of (presents fairly, in all material respects,) the financial position of ABC Entity as of March 31, 20X1 and the results of its operations and cash flows for the three month period then ended in accordance with (indicate identified financial reporting framework, including identifying the country of origin of the financial reporting framework when the framework used is not International Financial Reporting Standards).

We acknowledge our responsibility for the fair presentation of the interim financial information in accordance with (indicate identified financial reporting framework).

We confirm, to the best of our knowledge and belief, the following representations:

- The interim financial information referred to above has been prepared and presented in accordance with (indicate identified financial reporting framework).
- We have made available to you all books of account and supporting documentation and all minutes of meetings of shareholders and the board of directors (namely those held on [insert applicable dates]).
- There are no material transactions that have not been properly recorded in the accounting records underlying the interim financial information.
- There has been no known actual or possible noncompliance with laws and regulations that could have a material effect on the interim financial information in the event of noncompliance.
- We acknowledge responsibility for the implementation and operations of accounting and internal control systems that are designed to prevent and detect fraud and error.
- We have disclosed to you all significant facts relating to any known frauds or suspected frauds that may have affected the entity.

- We have disclosed to you the results of our assessment of the risk that the interim financial information may be materially misstated as the result of fraud.
- We believe the effects of uncorrected misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the interim financial information taken as a whole.
- We confirm the completeness of the information provided to you regarding the identification of related parties.
- The following have been properly recorded, and when appropriate, adequately disclosed in the interim financial information:
 - Related party transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties;
 - Guarantees, whether written or oral, under which the entity is contingently liable; and
 - Agreements and options to buy back assets previously sold.
- The presentation and disclosure of the fair value measurements of assets and liabilities are in accordance with (indicate identified financial reporting framework). The assumptions used reflect our intent and ability to carry specific courses of action on behalf of the entity, where relevant to the fair value measurements or disclosure.
- We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the interim financial information.
- We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of realizable value.
- The entity has satisfactory title to all assets and there are no liens or encumbrances on the entity's assets.
- We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.
- [Add any additional representations related to new accounting standards that are being implemented for the first time or any additional representations that are required by a new International Auditing Standard.]

To the best of our knowledge and belief, no events have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned interim financial information.

(Senior Executive Officer)

(Senior Financial Officer)

Appendix 3

Example of a Review Report on Interim Financial Information that is Comprised of a Condensed Set of Financial Statements

Report on Review of Interim Financial Information

(Appropriate addressee)

We have reviewed the accompanying condensed balance sheet of ABC Entity as of March 31, 20X1 and the related condensed statements of income, changes in equity and cash flows for the three-month period then ended.⁴ Management is responsible for the preparation of this interim financial information in accordance with [identified financial reporting framework]. Our responsibility is to issue a report on this interim financial information based on our review.

We conducted our review in accordance with standards issued by the International Auditing and Assurance Standards Board applicable to a review of interim financial information by the entity's independent auditor. A review of interim financial information consists primarily of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not provide assurance that we would become aware of any or all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, we are not aware of any material modification that needs to be made to the accompanying interim financial information for it to be in accordance with [identified financial reporting framework (identified country of origin of the financial reporting framework when the framework used is not International Accounting Standards)].

AUDITOR

Date

Address

⁴ The auditor may wish to specify the regulatory authority or equivalent with whom the interim financial information is filed.

Example of a Review Report on Interim Financial Information that is Comprised of a Complete Set of Financial Statements

Report on Review of Interim Financial Statements

(Appropriate addressee)

We have reviewed the accompanying balance sheet of ABC Entity as of March 31, 20X1 and the related statements of income, changes in equity and cash flows for the three-month period then ended.⁵ Management is responsible for the preparation of this interim financial information in accordance with [identified financial reporting framework]. Our responsibility is to issue a report on this interim financial information based on our review.

We conducted our review in accordance with standards issued by the International Auditing and Assurance Standards Board applicable to a review of interim financial information by the entity's independent auditor. A review of interim financial information consists primarily of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not provide assurance that we would become aware of any or all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of (or 'present fairly, in all material respects,') the financial position of the entity as of March 31, 20X1, and the results of its operations and its cash flows for the three-month period then ended in accordance with [identified financial reporting framework (identified country of origin of the financial reporting framework when the framework used is not International Financial Reporting Standards)].

AUDITOR

Date

Address

⁵ The auditor may wish to specify the regulatory authority or equivalent with whom the interim financial information is filed.

Appendix 4**Example of a Modified Review Report****Departure from the Identified Financial Reporting Framework When the Interim Financial Information is Comprised of a Condensed Set of Financial Statements**

Report on Review of Interim Financial Information

(Appropriate addressee)

We have reviewed the accompanying condensed balance sheet of ABC Entity as of March 31, 20X1 and the related condensed statements of income, changes in equity and cash flows for the three-month period then ended.⁶ Management is responsible for the preparation of this interim financial information in accordance with [identified financial reporting framework]. Our responsibility is to issue a report on this interim financial information based on our review.

We conducted our review in accordance with standards issued by the International Auditing and Assurance Standards Board applicable to a review of interim financial information by the entity's independent auditor. A review of interim financial information consists primarily of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not provide assurance that we would become aware of any or all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on information provided to us by management, ABC entity has excluded from property and long-term debt certain lease obligations that we believe should be capitalized to conform with [identified financial reporting framework]. This information indicates that if these lease obligations were capitalized at March 31, 20X1, property would be increased by \$_____, long-term debt by \$_____, and net income and earnings per share would be increased (decreased) by \$_____, \$_____, \$_____, and \$_____, respectively, for the three-month period then ended.

Based on our review, with the exception of the matter described in the preceding paragraph, we are not aware of any material modification that needs to be made to the accompanying interim financial information for it to be in accordance with [identified financial reporting framework (identified country of origin of the financial reporting framework when the framework used is not International Financial Reporting Standards)].

AUDITOR

Date

Address

⁶ The auditor may wish to specify the regulatory authority or equivalent with whom the interim financial information is filed.