



INTERNATIONAL FEDERATION OF ACCOUNTANTS

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Agenda Item

11

Committee: IAASB

Meeting Location: Miami

Meeting Date: December 8-13, 2002

Review of Interim Financial Information

Objectives of Agenda Item

To review the first draft of the exposure draft, consider the issues raised in this paper and provide comments to the Task Force.

Background

At its September 2002 meeting, the IAASB discussed the scope of the project to develop a standard on an auditor's responsibility when performing an engagement to review the interim financial information of an audit client.

The IAASB made the following three decisions:

1. The guidance to be issued should be in the form of a standard, rather than an addendum to ISA 910 "Engagements to Review Financial Statements" or an IAPS. An addendum to ISA 910 would not be appropriate because the project requires the practitioner to have audit based knowledge of the client. An IAPS would not be appropriate because the project contemplates new black lettered paragraphs.
2. The scope of the ISA would include only those engagements where the auditor performs a review of an audit client's interim financial information that is issued in accordance with legislation, regulation or other equivalent authority. The scope would be restricted to those situations where the entity is required to issue such information.
3. The ISA would contain a strong preference for reporting in writing, but oral reporting would be acceptable in certain circumstances.

Activities Since Last IAASB Discussions

The Consultative Advisory Group (CAG) was asked to provide input on the scope of the project. CAG agreed that the guidance should be in the form of a separate ISA. CAG questioned why the standard would permit oral reporting. It was the view of CAG that the standard should mandate written reporting. In particular they expressed concern with the concept of an oral modified report.

The Task Force met on October 28, 2002 to consider the comments from CAG and to review a draft ISA that reflected the IAASB decisions taken at the September 2002 (Cape Town) meeting.

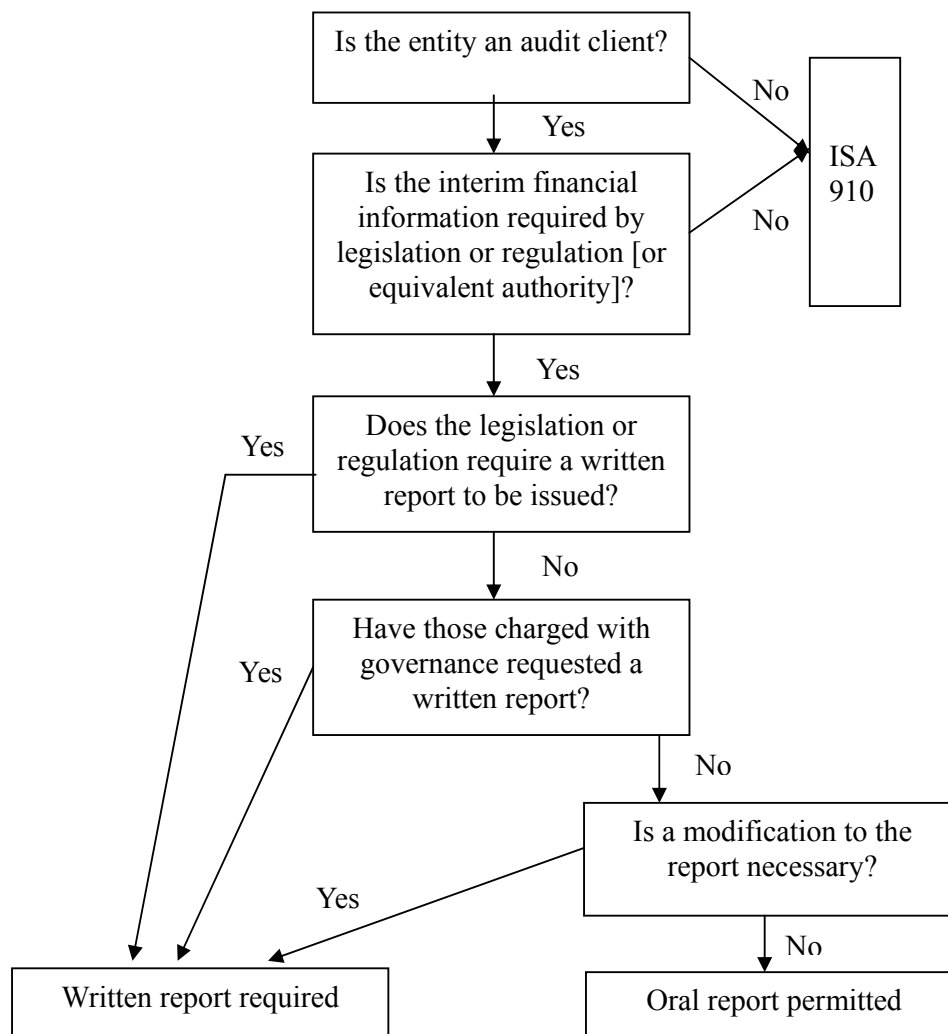
The U.S. ASB has approved SAS 100, Interim Financial Information (to supersede SAS 71).

Issues

SCOPE OF ISA

The distinction between ISA 910 and the proposed ISA is two fold. Firstly, the practitioner providing the review service must also be the entity's auditor and, secondly, the subject matter must be interim financial information that is issued by the entity in accordance with legislation or regulation or equivalent authority.

This is illustrated in the decision tree below:



REPORTING

The view of the IAASB was that the ISA should contain a strong preference for written reporting and that oral reporting would only be acceptable in certain circumstances. The view of CAG was that written reporting should be required in all circumstances.

The position taken in the document is consistent with the view expressed by the IAASB – a strong preference for written reporting but allowing oral reporting in certain circumstances. The document would permit oral reporting only in those circumstances where the legislation under which the interim financial information is being issued does not require a written report and when those charged with governance have not requested a written report. This approach is consistent with the approach taken in both the United States and Canada, neither of which requires a written report.

The ISA would require written reporting in circumstances when the auditor had reported orally and the entity subsequently made reference to the auditor's review in a document containing the interim financial information.

The ISA would also require the auditor to issue a written report in circumstances where the auditor concludes that a modification to the report is necessary.

MATERIALITY

The Task Force believes that ISAs should provide guidance on materiality considerations for interim financial information and on the evaluation of the effects of misstatements. This matter is included in the scope of the project to revise ISA 320 "Materiality". It is likely that the ED on Review of Interim Financial Information will be issued for comment before the ED dealing with materiality. Consequently, the Task Force recommends that the ED contain an introductory note indicating that the Materiality Project will include materiality considerations for interim financial information.

GOING CONCERN

ISA 570 "Going Concern" provides guidance on the auditor's responsibility to consider the appropriateness of the going concern assumption in the audit of financial statements. ISA 580.17 requires the auditor to evaluate management's assessment of the entity's ability to continue as a going concern.

With respect to the auditor's responsibility regarding going concern in the review of interim financial information the draft ISA states that the auditor would ordinarily update the audit based knowledge and inquire about any significant changes in its assessment of the entity's ability to continue as a going concern. The draft states that if the auditor becomes aware of events or conditions which may cast significant doubt on the entity's ability to continue as going concern, the auditor should inquire about management's plans and consider the adequacy of the disclosure of such matters in the interim financial information.

WRITTEN REPRESENTATIONS FROM MANAGEMENT

The draft requires that the auditor obtain written representations from management acknowledging its responsibility for the fair presentation of the interim financial statements in accordance with the identified financial reporting framework. There is no specific requirement, however, to obtain a representation from management that it believes the effects of those uncorrected financial statement misstatements aggregated by the auditor during the review are immaterial, both individually and in the aggregate, to the interim financial information and to include or attach to the written representations a summary of those uncorrected financial statement misstatements (as is required in ISA240.51).

Material Presented

Agenda Paper 11-A Draft ISA on Review of Interim Financial Information
(Pages 833 – 850)

Action Requested

1. IAASB is asked to consider the approach taken in this draft ISA and to provide guidance to the Task Force on the points raised above.
2. IAASB is asked to provide any editorial comments directly to staff.