

**REVIEW OF INTERIM FINANCIAL INFORMATION****CONTENTS**


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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 framework<sup>1</sup> 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 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:
  - the entity issuing the interim financial information is an audit client of the auditor;
  - the interim financial information is prepared in accordance with an identified financial reporting framework;
  - the entity is required or permitted under legislation, regulation, or equivalent authority to issue such interim financial information; and
  - the audited annual financial statements of the entity are filed with a regulatory authority, or equivalent, and are, therefore, publicly available.

ISA 910 "Engagements to Review Financial Statements" is to be applied to review engagements that do not meet the above criteria.

3. In some jurisdictions, legislation or regulation, or equivalent authority, may require that a review of the interim financial information of the entity be carried out by its auditor. In other jurisdictions, there may be no such review requirement, but those charged with governance may request that the auditor review the interim financial information.

## Objective of an Engagement to Review Interim Financial Information

4. **The objective of an engagement to review interim financial information is to provide the auditor with a basis for communicating whether the auditor is aware of any material modification that should be made to the interim financial information for it to conform with an identified financial reporting framework.**
5. 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. 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

<sup>1</sup> For example International Financial Reporting Standards as issued by the International Accounting Standards Board.

the auditor will become aware of any or all significant matters that might be identified in an audit.

### **Agreeing the Terms of the Engagement**

- 6. The auditor and the client should agree on the terms of the engagement, which are to be recorded in writing.**
7. 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 avoid misunderstandings regarding the level of assurance provided, the scope of the review, management's responsibilities, the extent of the auditor's 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 provide the auditor with a basis for communicating whether the auditor is aware of any material modification that should be made to the interim financial information for it to conform 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; and
  - management's agreement that it will include the review report in any document containing interim financial information 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**

- 8. 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 communicating 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.**
9. The auditor who has audited the entity's financial statements for one or more annual periods has obtained an understanding of the entity's internal control as it relates to the preparation of annual financial information 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.
10. The auditor performs procedures to assist the auditor 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;
  - reading the most recent annual and comparable prior interim period 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 accounting framework<sup>2</sup>;
  - considering the nature of any corrected material misstatements and any identified uncorrected immaterial misstatements in the prior year's financial statements;
  - 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;
  - considering those significant financial accounting and reporting matters that may be of continuing significance such as weaknesses in the internal control;
  - considering the results of any audit procedures performed with respect to the current year's financial statements;
  - inquiring of management about changes in the entity's business activities;

<sup>2</sup> For example, paragraph 23 of IAS 34 *Interim Financial Reporting* states that: "In deciding how to recognize, measure, classify, or disclose an item for interim financial reporting purposes materiality should be assessed in relation to the interim period financial data. In making assessments of materiality, it should be recognized that interim measurements may rely on estimates to a greater extent than measurements of annual financial data."

- inquiring of management about any significant changes in its assessment of the entity's ability to continue as a going concern; and
  - inquiring of management about any significant changes in internal control.
11. An auditor engaged to perform a review of interim financial information who has recently been appointed as auditor of the entity obtains an understanding of the entity's internal control as it relates to the preparation of annual financial information sufficient to conduct an audit in order to plan and conduct the review engagement. The auditor also obtains a sufficient understanding of internal control as it relates to the preparation of interim financial information. 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. 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**

12. **The auditor should perform a review of the interim financial information with the objective of providing the auditor with a basis for reporting whether the auditor is aware of any material modification that should be made for such information to be 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.**
13. A review does not 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 corroboration of 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, and the auditor's assessment 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.
14. The auditor ordinarily performs the following procedures:
- Inquiring whether there have been any significant changes in the entity's internal control and, if so, the potential effect on the preparation of interim financial information.
  - 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 report, accounting adjustments or unadjusted misstatements at the time of the previous audit or reviews.
- Obtaining reports from other auditors, if any, who have been engaged to perform a review of the interim financial information or significant components of the reporting entity, its subsidiaries or its other investees, or inquiring of those auditors if reports have not been issued.
- 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 there have been any changes in accounting principles or in the methods of applying them.
  - Whether the interim financial information contains any known uncorrected financial statement 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 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.
  - Events subsequent to the date of the interim financial information that could have a material effect on the presentation of such information.
  - 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, short sellers, financial analysts or others.
- 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 including the following:

- Comparison of the interim financial information with those of the immediately preceding interim period, with those of the corresponding interim period of the preceding financial year, with those that were expected by management for the current period, and with the most recent audited annual financial statements.
  - Evaluation of the interim financial information, made by consideration of relationships among financial and, where relevant, non-financial data.
  - Comparison of 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.
  - Comparison of disaggregated revenue data, for example, comparing revenue reported by month and by product line or business segment during the current interim period with that of comparable periods (Appendix 1 to this ISA contains examples of analytical procedures the auditor may consider applying 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 appears to be in accordance with the identified financial reporting framework.
15. 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's 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.
16. 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, such as the reading of minutes, may be performed concurrently with the review of interim financial information. The auditor also exercises professional judgment in determining whether significant or unusual transactions that occurred during the interim period under review need to be covered by audit procedures that are ordinarily performed for purposes of the audit of the annual financial statements.
17. 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.
18. **The auditor should obtain evidence that the interim financial information agrees or reconciles with the accounting records.** The auditor may obtain this information 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.
19. **When 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.**
20. A review of interim financial information is not designed to identify events or conditions which may cast significant doubt on the entity's ability to continue as a going concern. However such events or conditions may have existed at the date of the prior-period financial statements. In addition, in the course of performing review procedures on the current-period financial information, the auditor remains alert for information indicating the existence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
21. **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 conform 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 interim review procedures lead the auditor to question whether a significant sales transaction is recorded in conformity 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. When evaluating whether any required modification is material, the auditor considers materiality judgments made in connection with the current or prior year's annual audit.

### **Evaluation of Misstatements**

22. A review of interim financial information 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 conform to the identified financial reporting framework.
23. 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.

24. 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 that misstatements of a relatively small amount could nevertheless have a material effect on the interim financial information.

### **Management Representations**

25. **The auditor should obtain written representations from management for the interim financial information that are consistent with the written representations the auditor obtains for the audit of the annual financial statements.**
26. The representations obtained from management include that:
- (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) it believes the effect 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 taken as a whole. A summary of such items should be included in or attached to the written representations;
  - (c) 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;
  - (d) 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;
  - (e) it has disclosed to the auditor all known actual or possible noncompliance with laws and regulations whose effects should be considered when preparing the interim financial information;
  - (f) 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;
  - (g) 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**

27. **The auditor should read 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, or if the auditor becomes aware of an apparent material misstatement of fact, the auditor refers to ISA 720 "Other Information in Documents Containing Audited Financial Statements" for guidance on the action to be taken in such circumstances. An example of such a circumstance is if, in addition to the interim financial information, management chooses to publish measures of earnings other than those prescribed by the identified financial reporting framework and such measures, by omission of selected items, present a more positive picture of financial performance, or such measures are either not clearly defined or not accompanied by adequate disclosure and are confusing and potentially misleading.

**Inability to Complete a Review**

28. 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 communicating 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. An incomplete review is not an adequate basis for issuing a review report. If the auditor cannot complete the review the auditor communicates that information in accordance with the guidance in paragraphs 29 – 30. Nevertheless, if the auditor has become aware of a material modification that should be made to the interim financial information for it to be in accordance with the identified financial reporting framework the auditor communicates such matters in accordance with the guidance in paragraphs 29 – 31.

**Communication**

29. **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.**
30. **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.
31. **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.**
32. **When, as a result of performing the review of interim financial information, the auditor becomes aware of fraud or noncompliance<sup>3</sup> 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

<sup>3</sup> ISA 250 "Consideration of Laws and Regulation in an Audit of Financial Statements" paragraph 3 states that the term "noncompliance" refers to acts of omission or commission by the entity being audited, either intentional or unintentional, which are contrary to the prevailing laws or regulations.

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.

33. As a result of performing the review of the interim financial information the auditor may become aware of matters<sup>4</sup> as described in ISA 260 “Communication of Audit Matters With Those Charged With Governance.” The auditor communicates such matters to those charged with governance.

### **Reporting the Nature, Extent and Results of the Interim Review**

34. **The auditor’s report should contain 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 and the responsibility of the auditor.**
- (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, 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.**
- (h) **A statement about whether the auditor is aware of any material modification that should be made to the interim financial information to be in accordance with the identified financial reporting framework.**
- (j) **The date of the report.**
- (k) **A specific location, which is ordinarily the city where the auditor maintains the office that has responsibility for the audit.**
- (l) **The auditor’s signature.**

35. An illustrative review report is set out in Appendix 3 to this ISA.

36. **The auditor should modify the review report when there is a disagreement with management regarding the acceptability of the accounting policies selected, the method of their application or the adequacy of the interim financial information disclosures, and, in the auditor’s judgment, the effect of the matter is or may be material to the interim financial information.**

<sup>4</sup> ISA 260 “Communication of Audit Matters With Those Charged With Governance” states that “audit matters or governance interest” are those that arise from the audit of the financial statements and, in the opinion, of the auditor, are both important and relevant to those charged with governance in overseeing the financial reporting process.

37. If the auditor becomes aware 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, includes 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 should be made to the interim financial information to be in accordance with the identified financial reporting framework. An illustrative modified review report is set out in Appendix 4 to this ISA.
38. If management has not included the review report in a document containing the interim financial information 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.
39. If the auditor has issued a modified review report and management issues the interim financial information without either correcting the interim financial information or 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

40. **The auditor should document matters that are important to support the content of the auditor's communication 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

41. 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. These procedures may consist of comparing interim financial information with prior period information, actual interim results with anticipated results (such as budgets or forecasts), and recorded amounts or ratios with expectations developed by the auditor. 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 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).<sup>5</sup>
- Comparing current interim financial information with relevant non-financial information.
- Comparing ratios and indicators for the current interim period with expectations based on prior periods, for example, performing gross profit analysis by product line and business segment using elements of the current interim financial information and comparing the results with corresponding information for prior periods. Examples of key ratios and indicators are the current ratio, receivable turnover or days' sales outstanding, inventory turnover, depreciation to average fixed assets, debt to equity, gross profit percentage, net income percentage, and plant operating rates.
- 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, subsidiary, division, or branch.
  - By attributes of the transaction, for example, revenue generated by designers, architects, or craftsmen.

<sup>5</sup> The auditor should exercise 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 and misstatement by management to reflect desired interim results.

- By several attributes of the transaction, for example, sales by product and month.

## 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)

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 information for it to conform with (indicate identified financial reporting framework).

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 conformity 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 have 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 interim financial information 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.
- 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 alter 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 or auditing standards that are being implemented for the first time.]

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.

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(Senior Executive Officer)

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(Senior Financial Officer)

## Appendix 3

### Example of a Review Report

#### Report on Review of Interim Financial Information

(Appropriate addressee)

We have reviewed the accompanying<sup>6</sup> 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.<sup>7</sup> This interim financial information is the responsibility of the entity's management. 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. 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 International Financial Reporting Standards (or [title of financial reporting framework with reference to country of origin]).

NAME OF AUDITOR

Date

Address

<sup>6</sup> The reference can be by page numbers.

<sup>7</sup> 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 International Financial Reporting Standards****Report on Review of Interim Financial Information**

(Appropriate addressee)

We have reviewed the accompanying<sup>8</sup> 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.<sup>9</sup> This interim financial information is the responsibility of the entity's management. 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. 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 International Financial Reporting Standards. 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 International Financial Reporting Standards.

NAME OF AUDITOR

Date

Address

<sup>8</sup> The reference can be by page numbers.

<sup>9</sup> The auditor may wish to specify the regulatory authority or equivalent with whom the interim financial information is filed.

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