

AU-C Section 930

Interim Financial Information

Source: SAS No. 122.

Effective for reviews of interim financial information for interim periods of fiscal years beginning on or after December 15, 2012.

NOTE

In February 2017 the Auditing Standards Board issued SAS No. 132, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (sec. 570), which contains amendments to this section.

The amendments are effective for audits of financial statements for periods ending on or after December 15, 2017, and can be viewed in the appendix of section 570.

Introduction

Scope of This Section

.01 This section addresses the auditor's responsibilities when engaged to review interim financial information under the conditions specified in this section. The term *auditor* is used throughout this section, not because the auditor is performing an audit but because the scope of this section is limited to a review of interim financial information performed by an auditor of the financial statements of the entity.

.02 This section applies to a review of interim financial information when

- a. the entity's latest annual financial statements have been audited by the auditor or a predecessor auditor;
- b. the auditor either
 - i. has been engaged to audit the entity's current year financial statements or
 - ii. audited the entity's latest annual financial statements, and in situations in which it is expected that the current year financial statements will be audited, the engagement of another auditor to audit the current year financial statements is not effective prior to the beginning of the period covered by the review; (Ref: par. .A1)
- c. the entity prepares its interim financial information in accordance with the same financial reporting framework as that used to prepare the annual financial statements; and
- d. all of the following conditions are met if the interim financial information is condensed:
 - i. The condensed interim financial information purports to be prepared in accordance with an appropriate financial reporting framework, which includes appropriate form and content of interim financial information. (Ref: par. .A2)

- ii. The condensed interim financial information includes a note that the financial information does not represent complete financial statements and is to be read in conjunction with the entity's latest audited annual financial statements.
- iii. The condensed interim financial information accompanies the entity's latest audited annual financial statements, or such audited annual financial statements are made readily available by the entity. (Ref: par. .A3)

Statements on Standards for Accounting and Review Services provide guidance for review engagements for which this section is not applicable.

.03 An auditor may find this section, adapted as necessary in the circumstances, useful when that auditor has not been engaged to perform a review of interim financial information but has nonetheless decided to perform review procedures on such financial information (for example, in connection with the inclusion of the auditor's report on the annual financial statements in an unregistered securities offering document).

Effective Date

.04 This section is effective for reviews of interim financial information for interim periods of fiscal years beginning on or after December 15, 2012.

Objective

.05 The objective of the auditor when performing an engagement to review interim financial information is to obtain a basis for reporting whether the auditor is aware of any material modifications that should be made to the interim financial information for it to be in accordance with the applicable financial reporting framework through performing limited procedures. (Ref: par. .A4–.A5)

Definition

.06 For purposes of this section, the following term has the meaning attributed as follows:

Interim financial information. Financial information prepared and presented in accordance with an applicable financial reporting framework that comprises either a complete or condensed set of financial statements covering a period or periods less than one full year or covering a 12-month period ending on a date other than the entity's fiscal year end.

Requirements

Acceptance

.07 Before accepting an engagement to review an entity's interim financial information for a new client, the auditor should follow the procedures for initial engagements required by section 210, *Terms of Engagement*.¹

.08 Before accepting an engagement to perform a review of interim financial information, the auditor should

¹ Paragraphs .11–.12 of section 210, *Terms of Engagement*.

- a. determine whether the financial reporting framework to be applied in the preparation of the interim financial information is acceptable and
- b. obtain the agreement of management that it acknowledges and understands its responsibility
 - i. for the preparation and fair presentation of the interim financial information in accordance with the applicable financial reporting framework;
 - ii. for the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with the applicable financial reporting framework;
 - iii. to provide the auditor with
 - (1) access to all information of which management is aware that is relevant to the preparation and fair presentation of the interim financial information, such as records, documentation, and other matters;
 - (2) additional information that the auditor may request from management for the purpose of the review; and
 - (3) unrestricted access to persons within the entity of whom the auditor determines it necessary to make inquiries;² and
 - iv. to include the auditor's review report in any document containing interim financial information that indicates that such information has been reviewed by the entity's auditor.

.09 The auditor should not accept an engagement to review interim financial information if

- a. the auditor has determined that the financial reporting framework to be applied in the preparation of the interim financial information is unacceptable.
- b. the agreement referred to in paragraph .08b has not been obtained.

Agreement on Engagement Terms

.10 The auditor should agree upon the terms of the engagement with management or those charged with governance, as appropriate. The agreed-upon terms of the engagement should be recorded in an engagement letter or other suitable form of written agreement and should include the following: (Ref: par. .A6)

- a. The objectives and scope of the engagement
- b. The responsibilities of management set forth in paragraph .08b
- c. The responsibilities of the auditor
- d. The limitations of a review engagement

² Paragraph .06 of section 210.

- e. Identification of the applicable financial reporting framework for the preparation of the interim financial information

Procedures for a Review of Interim Financial Information

Understanding the Entity and Its Environment, Including Its Internal Control

.11 To plan and conduct the engagement, the auditor should have an understanding of the entity and its environment, including its internal control as it relates to the preparation and fair presentation of both annual and interim financial information, sufficient to be able to

- a. identify the types of potential material misstatements in the interim financial information and consider the likelihood of their occurrence.
- 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 modifications that should be made to the interim financial information for it to be in accordance with the applicable financial reporting framework.

.12 To update or, in the case of an auditor who has not yet performed an audit of the entity's annual financial statements, obtain the understanding required by paragraph .11, the auditor should perform the following procedures: (Ref: par. .A7–.A8)

- a. Read available documentation of the preceding year's audit and of reviews of the prior interim period(s) of the current year and the corresponding 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. (Ref: par. .A9–.A10) In reading such documents, the auditor should specifically consider the nature of any
 - i. corrected material misstatements;
 - ii. matters identified in any summary of uncorrected misstatements;
 - iii. identified risks of material misstatement due to fraud, including the risk of management override of controls; and
 - iv. significant financial accounting and reporting matters that may be of continuing significance, such as significant deficiencies and material weaknesses.
- b. Read the most recent annual and comparable prior interim period financial information.
- c. Consider the results of any audit procedures performed with respect to the current year's financial statements.
- d. Inquire of management about changes in the entity's business activities.
- e. Inquire of management about the identity of, and nature of transactions with, related parties.
- f. Inquire of management about whether significant changes in internal control, as it relates to the preparation and fair presentation of interim financial information, have occurred subsequent to the preceding annual audit or prior review of interim financial information, including changes in the entity's policies, procedures, and personnel, as well as the nature and extent of such changes.

Analytical Procedures, Inquiries, and Other Review Procedures*Analytical Procedures*

.13 The auditor should apply analytical procedures to the interim financial information to identify and provide a basis for inquiry about the relationships and individual items that appear to be unusual and that may indicate a material misstatement. Such analytical procedures should include the following: (Ref: par. .A11–.A13)

- a. Comparing the interim financial information with comparable information for the immediately preceding interim period, if applicable, and with the corresponding period(s) in the previous year, giving consideration to knowledge about changes in the entity's business and specific transactions
- b. Considering plausible relationships among both financial and, when relevant, nonfinancial information (Ref: par. .A14)
- c. Comparing recorded amounts or ratios developed from recorded amounts to expectations developed by the auditor through identifying and using relationships that are reasonably expected to exist, based on the auditor's understanding of the entity and the industry in which the entity operates
- d. Comparing disaggregated revenue data (Ref: par. .A15)

Inquiries and Other Review Procedures

.14 The auditor should make the following inquiries and perform the following other review procedures when conducting a review of interim financial information:

- a. Read the available minutes of meetings of stockholders, directors, and appropriate committees and inquire about matters dealt with at meetings for which minutes are not available to identify matters that may affect the interim financial information. (Ref: par. .A16)
- b. Obtain reports from component auditors, if any, related to reviews performed of the interim financial information of significant components of the reporting entity, including its investees, or inquire of those auditors if reports have not been issued. (Ref: par. .A17)
- c. Inquire of management about
 - i. whether the interim financial information has been prepared and fairly presented in accordance with the applicable financial reporting framework consistently applied.
 - ii. unusual or complex situations that may have an effect on the interim financial information. (Ref: par. .A18)
 - iii. significant transactions occurring or recognized in the interim period, particularly those in the last several days of the interim period.
 - iv. the status of uncorrected misstatements identified during the previous audit and interim review (that is, whether adjustments had been recorded subsequent to the periods covered by the prior audit or interim review and, if so, the amounts recorded and period in which such adjustments were recorded).
 - v. matters about which questions have arisen in the course of applying the review procedures.

- vi. events subsequent to the date of the interim financial information that could have a material effect on the fair presentation of such information.
 - vii. its knowledge of any fraud or suspected fraud affecting the entity involving (1) management, (2) employees who have significant roles in internal control, or (3) others when the fraud could have a material effect on the financial information.
 - viii. whether management is aware of allegations of fraud or suspected fraud affecting the entity communicated by employees, former employees, regulators, or others.
 - ix. significant journal entries and other adjustments.
 - x. communications from regulatory agencies.
 - xi. significant deficiencies and material weaknesses in the design or operation of internal control as it relates to the preparation and fair presentation of both annual and interim financial information.
 - xii. changes in related parties or significant new related party transactions.
- d. Obtain evidence that the interim financial information agrees or reconciles with the accounting records. In addition, the auditor should inquire of management about the reliability of the records to which the interim financial information was compared or reconciled. (Ref: par. .A19)
- e. Read the interim financial information to consider whether, based on the results of the review procedures performed and other information that has come to the auditor's attention, the information to be reported is in accordance with the applicable financial reporting framework.
- f. Read other information in documents containing the interim financial information to consider whether such information or the manner of its presentation is materially inconsistent with the interim financial information. If the auditor concludes that a material inconsistency exists or becomes aware of information that the auditor believes is a material misstatement of fact, the auditor should take action based on the auditor's professional judgment. (Ref: par. .A20–.A21)

Inquiry Concerning Litigation, Claims, and Assessments

.15 If information comes to the auditor's attention regarding litigation, claims, or assessments that leads the auditor to question whether the interim financial information has been prepared, in all material respects, in accordance with the applicable financial reporting framework, and the auditor believes that the entity's internal or external legal counsel may have relevant information, the auditor should inquire of such legal counsel concerning litigation, claims, and assessments. (Ref: par. .A22)

Inquiry Concerning an Entity's Ability to Continue as a Going Concern

.16 If (a) conditions or events that may indicate substantial doubt about an entity's ability to continue as a going concern existed at the date of prior period financial statements, regardless of whether the substantial doubt was alleviated by the auditor's consideration of management's plans, or (b) in the course of performing review procedures on the current period interim financial information, the auditor becomes aware of conditions or events that might be

indicative of the entity's possible inability to continue as a going concern, the auditor should

- a. inquire of management about its plans for dealing with the adverse effects of the conditions and events, and (Ref: par. .A23)
- b. consider the adequacy of the disclosure about such matters in the interim financial information. (Ref: par. .A24)

Consideration of Management's Responses and Extension of Interim Review Procedures

.17 The auditor should consider the reasonableness and consistency of management's responses in light of the results of other review procedures and the auditor's knowledge of the entity's business and its internal control. However, the auditor is not required to corroborate management's responses with other evidence.

.18 When a matter comes to the auditor's attention that leads the auditor to question whether the interim financial information has been prepared in accordance with the applicable financial reporting framework in all material respects, the auditor should make additional inquiries of management or others or perform other procedures to provide a basis for reporting whether the auditor is aware of any material modifications that should be made to the interim financial information. (Ref: par. .A25)

Evaluating the Results of Interim Review Procedures

.19 The auditor should accumulate misstatements, including inadequate disclosure, identified by the auditor in performing the review procedures or brought to the auditor's attention during the performance of the review. (Ref: par. .A26)

.20 The auditor should evaluate, individually and in the aggregate, misstatements, including inadequate disclosure, accumulated in accordance with paragraph .19 to determine whether material modification should be made to the interim financial information for it to be in accordance with the applicable financial reporting framework. (Ref: par. .A27–.A28)

Written Representations From Management

.21 For all interim financial information presented and for all periods covered by the review, the auditor should request management to provide written representations, as of the date of the auditor's review report (Ref: par. .A29–.A30)

- a. that management has fulfilled its responsibility for the preparation and fair presentation of the interim financial information, in accordance with the applicable financial reporting framework, as set out in the terms of the engagement.
- b. that management acknowledges its responsibility for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of interim financial statements, including its responsibility to prevent and detect fraud.
- c. that management has disclosed to the auditor all significant deficiencies and material weaknesses in the design or operation of internal control of which management is aware as it relates to the preparation and fair presentation of both annual and interim financial information.

- d.* that management has provided the auditor with all relevant information and access, as agreed upon in the terms of the engagement.
- e.* that all transactions have been recorded and are reflected in the interim financial information.
- f.* that management 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.
- g.* that management has disclosed to the auditor its knowledge of fraud or suspected fraud affecting the entity involving
 - i.* management,
 - ii.* employees who have significant roles in internal control, or
 - iii.* others when the fraud could have a material effect on the interim financial information.
- h.* that management has disclosed to the auditor its knowledge of any allegations of fraud or suspected fraud affecting the entity's interim financial information communicated by employees, former employees, regulators, or others.
- i.* that management has disclosed to the auditor all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing interim financial information.
- j.* about whether management believes that the effects of uncorrected misstatements are immaterial, individually and in the aggregate, to the interim financial information as a whole. A summary of such items should be included in, or attached to, the written representation. (Ref: par. .A31)
- k.* that management has disclosed to the auditor all known actual or possible litigation and claims whose effects should be considered when preparing the interim financial information, and it has appropriately accounted for and disclosed such litigation and claims in accordance with the applicable financial reporting framework.
- l.* about whether management believes that significant assumptions used by it in making accounting estimates are reasonable.
- m.* that management has disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which it is aware, and it has appropriately accounted for and disclosed such relationships and transactions.
- n.* that all events occurring subsequent to the date of the interim financial information and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

.22 If the auditor has concerns about the reliability of the representations or if management does not provide the requested written representations, the auditor should take appropriate action. When management does not provide the written representations described in paragraph .21a–e, the auditor should withdraw from the engagement to review the interim financial information. (Ref: par. .A32)

Communications With Management and Those Charged With Governance

Matters Affecting the Completion of the Review

.23 If the auditor cannot complete the review, the auditor should communicate to the appropriate level of management and those charged with governance

- a. the reason why the review cannot be completed;
- b. that an incomplete review does not provide a basis for reporting and, accordingly, that the auditor is precluded from issuing a review report; and
- c. any material modifications of which the auditor has become aware that should be made to the interim financial information for it to be in accordance with the applicable financial reporting framework, in accordance with paragraphs .24–.26. (Ref: par. .A33)

.24 The auditor should communicate to the appropriate level of management, as soon as practicable, matters that come to the auditor's attention during the conduct of the review that cause the auditor to believe that

- a. material modification should be made to the interim financial information for it to be in accordance with the applicable financial reporting framework, or
- b. the entity issued the interim financial information before the completion of the review.

.25 If, in the auditor's judgment, management does not respond appropriately to the auditor's communication within a reasonable period of time, the auditor should inform those charged with governance of the matters as soon as practicable.

.26 If, in the auditor's judgment, those charged with governance do not respond appropriately to the auditor's communication within a reasonable period of time, the auditor should consider whether to withdraw (a) from the engagement to review the interim financial information and (b) if applicable, from serving as the entity's auditor. (Ref: par. .A34)

Other Matters

.27 If the auditor becomes aware that fraud may have occurred, the auditor should communicate the matter as soon as practicable to the appropriate level of management. If the fraud involves senior management or results in a material misstatement of the interim financial information, the auditor should communicate the matter directly to those charged with governance. If the auditor becomes aware of matters involving identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing interim financial information, the auditor should communicate the matters to those charged with governance, other than when the matters are clearly inconsequential.

.28 The auditor should communicate relevant matters of governance interest arising from the review of interim financial information to those charged with governance, including the following:

- a. Significant deficiencies or material weaknesses in internal control as it relates to the preparation and fair presentation of annual and interim financial information (Ref: par. .A35)
- b. Any of the matters described in section 260, *The Auditor's Communication With Those Charged With Governance*, that have been

identified, as they relate to the interim financial information (Ref: par. .A36–.A38)

The Auditor's Report on a Review of Interim Financial Information

Form of the Auditor's Review Report

.29 The auditor's review report should be in writing. (Ref: par. .A39)

.30 The written review report should include the following: (Ref: par. .A40–.A41)

- a. A title that includes the word *independent* to clearly indicate that it is the report of an independent auditor.
- b. An addressee as appropriate for the circumstances of the engagement.
- c. An introductory paragraph that
 - i. identifies the entity whose interim financial information has been reviewed,
 - ii. states that the interim financial information identified in the report was reviewed,
 - iii. identifies the interim financial information, and
 - iv. specifies the date or period covered by each financial statement comprising the interim financial information.
- d. A section with the heading "Management's Responsibility for the Financial Statements" that includes an explanation that management is responsible for the preparation and fair presentation of the interim financial information in accordance with the applicable financial reporting framework; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with the applicable financial reporting framework.
- e. A section with the heading "Auditor's Responsibility" that includes the following statements:
 - i. The auditor's responsibility is to conduct the review of interim financial information in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information.
 - ii. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters.
 - iii. A review of interim financial information is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is an expression of an opinion regarding the financial information as a whole, and accordingly, no such opinion is expressed.
- f. A concluding section with an appropriate heading that includes a statement about whether the auditor is aware of any material modifications that should be made to the accompanying interim financial information for it to be in accordance with the applicable

financial reporting framework and that identifies the country of origin of those accounting principles, if applicable.

- g. The manual or printed signature of the auditor's firm.
- h. The city and state where the auditor practices.
- i. The date of the review report, which should be dated as of the date of completion of the review procedures.

.31 The auditor should determine that management has clearly marked as unaudited each page of the interim financial information accompanying the review report.

Comparative Interim Financial Information That Has Not Been Reviewed Presented With Reviewed Interim Financial Information

.32 If an auditor is engaged to perform a review of the most recent interim period in accordance with this section, and such financial information will be presented in comparative form with interim financial information of a prior period that has not been reviewed, such interim financial information should be accompanied by an indication in the auditor's review report that the auditor has not reviewed the prior period interim financial information and that the auditor assumes no responsibility for it. (Ref: par. .A42)

Interim Financial Information Presented With Condensed Balance Sheet Information for the Most Recent Year End

.33 When a condensed balance sheet derived from audited financial statements is presented on a comparative basis with the interim financial information, the auditor should report on the condensed balance sheet only when the auditor audited the financial statements from which the condensed balance sheet was derived. The auditor should compare the condensed balance sheet with the related information in the audited financial statements to determine whether the condensed balance sheet agrees with, or can be recalculated from, the related information in the audited financial statements. The auditor's report on the interim financial information should include a paragraph addressing the condensed balance sheet that

- a. identifies the condensed balance sheet on which the auditor is reporting.
- b. identifies the audited financial statements from which the condensed balance sheet was derived and indicates that such financial statements are not separately presented.
- c. refers to the auditor's report on the audited financial statements, the date of that report, and the type of opinion expressed and, if the opinion is modified, the basis for the modification.
- d. describes the nature of any emphasis-of-matter paragraph or other-matter paragraph included in the auditor's report.
- e. includes an opinion about whether the condensed balance sheet is consistent, in all material respects, in relation to the audited financial statements from which it has been derived. (Ref: par. .A43)

Modification of the Auditor's Review Report

.34 When the interim financial information has not been prepared in accordance with the applicable financial reporting framework in all material respects, the auditor should consider whether modification of the auditor's review

report on the interim financial information is sufficient to address the departure from the applicable financial reporting framework. (Ref: par. .A44–.A47)

.35 If the auditor concludes that modification of the standard review report is sufficient to address the departure, the auditor should modify the review report. The modification should describe the nature of the departure and, if practicable, should state the effects on the interim financial information. If the departure is due to inadequate disclosure, the auditor should, if practicable, include the information in the report that the auditor believes is necessary for adequate disclosure in accordance with the applicable financial reporting framework. (Ref: par. .A48)

.36 If the auditor believes that modification of the review report is not sufficient to address the deficiencies in the interim financial information, the auditor should withdraw from the review engagement and provide no further services with respect to such interim financial information.

Subsequent Discovery of Facts Existing at the Date of the Auditor's Review Report

.37 If, subsequent to the date of the auditor's review report, the auditor becomes aware that facts existed at the date of the review report that might have affected the auditor's review report had the auditor then been aware of those matters, the auditor should apply the requirements and guidance, adapted as necessary, in section 560, *Subsequent Events and Subsequently Discovered Facts*.

Other Considerations

.38 If management does not include the auditor's review report in a report, document, or written communication containing the reviewed interim financial information that indicates that such information has been reviewed by the entity's auditor, despite having agreed in the terms of the engagement to do so, the auditor should perform the following procedures:

- Request that management amend the report, document, or written communication to include the auditor's review report and reissue the report, document, or written communication
- If management does not comply with the request to amend and reissue the report, document, or written communication, request that the auditor's name not be associated with the interim financial information or referred to in the report, document, or written communication because the auditor will not permit either the use of the auditor's name or reference to the auditor unless the auditor's review report is included with the reviewed interim financial information in these circumstances
- Communicate management's noncompliance with the requests to those charged with governance
- When appropriate, recommend that the entity consult with its legal counsel about the application of relevant laws and regulations to the circumstances
- Consider what other actions might be appropriate (Ref: par. .A49)

.39 If the auditor has issued a modified review report due to a departure from the applicable financial reporting framework, and management issues the

interim financial information without including the review report in the document containing the interim financial information, the auditor should determine the appropriate course of action in the circumstances, including whether to withdraw from the engagement to audit the annual financial statements.

Interim Financial Information Accompanying Audited Financial Statements

.40 The auditor should include an other-matter paragraph in the auditor's report on the audited financial statements when all the following conditions exist:

- a. The interim financial information that has been reviewed in accordance with this section is included in a document containing audited financial statements.
- b. The interim financial information accompanying audited financial statements does not appear to be presented in accordance with the applicable financial reporting framework.
- c. The auditor's separate review report, which refers to the departure from the applicable financial reporting framework, is not presented with the interim financial information.

.41 The auditor is required by section 700, *Forming an Opinion and Reporting on Financial Statements*, to address in the auditor's report on the audited financial statements information that is not required by the applicable financial reporting framework but is nevertheless presented as part of the basic financial statements if it cannot be clearly differentiated.³ When the interim financial information included in a note to the financial statements, including information that has been reviewed in accordance with this section, is not appropriately marked as unaudited, the auditor should, in the auditor's report on the audited financial statements, disclaim an opinion on the interim financial information. (Ref: par. .A50–.A51)

Documentation

.42 The auditor should prepare documentation in connection with a review of interim financial information that will enable an experienced auditor, having no previous connection to the review, to understand

- a. the nature, timing, and extent of the review procedures performed;
- b. the results of the review procedures performed and the evidence obtained; and
- c. significant findings or issues arising during the review, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

.43 The documentation should include the communications required by this section, whether written or oral. (Ref: par. .A52–.A53)

³ Paragraph .58 of section 700A, *Forming an Opinion and Reporting on Financial Statements*.

Application and Other Explanatory Material

Scope of This Section (Ref: par. .02)

.A1 The ability to apply this section even when the auditor does not expect to be engaged to audit the current year financial statements provides for appropriate transitions between the predecessor auditor and the auditor of the current year financial statements.

.A2 Appropriate financial reporting frameworks for condensed interim financial information may include, for example, Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 270, *Interim Reporting*, and Article 10 of Securities and Exchange Commission (SEC) Regulation S-X, with respect to accounting principles generally accepted in the United States of America, or International Accounting Standard 34, *Interim Financial Reporting*, with respect to International Financial Reporting Standards issued by the International Accounting Standards Board. FASB ASC 270 outlines the application of U.S. generally accepted accounting principles (GAAP) to the determination of income when interim financial information is presented, provides for the use of estimated effective income tax rates, and specifies certain disclosure requirements for condensed interim financial information issued by public companies and may be adapted by nonissuers as a fair presentation framework for condensed interim financial information. In addition to FASB ASC 270, other FASB ASC topics also include disclosure requirements for interim financial information.

The Meaning of Readily Available (Ref: par. .02d(iii))

.A3 Audited financial statements are deemed to be readily available if a third-party user can obtain the financial statements without any further action by the entity (for example, financial statements on an entity's website may be considered readily available, but being available upon request is not considered readily available).

Objective (Ref: par. .05)

.A4 The objective of a review of interim financial information differs significantly from that of an audit conducted in accordance with auditing standards generally accepted in the United States of America. A review of interim financial information does not provide a basis for expressing an opinion about whether the interim financial information is presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

.A5 A review, in contrast to an audit, is not designed to provide the auditor with a basis for obtaining reasonable assurance that the interim financial information is free from material misstatement. A review consists principally of performing analytical procedures and making inquiries of persons responsible for financial and accounting matters and does not contemplate (a) tests of accounting records through inspection, observation, or confirmation; (b) tests of controls to evaluate their effectiveness; (c) the obtainment of corroborating evidence in response to inquiries; or (d) the performance of certain other procedures ordinarily performed in an audit. A review may bring to the auditor's attention significant findings or issues affecting the interim financial information, but it does not provide assurance that the auditor will become aware of all significant findings or issues that would be identified in an audit.

Acceptance

Agreement on Engagement Terms (Ref: par. .10)

.A6 The engagement letter or other suitable form of written agreement documenting the agreed-upon terms of the engagement with the entity regarding a review of interim financial information may use the following wording to include the information necessary to meet the requirements of paragraph .10:

Objectives and scope of the engagement

- The objective of a review of interim financial information is to provide the auditor with a basis for reporting whether the auditor is aware of any material modifications that should be made to the interim financial information for it to be in accordance with the applicable financial reporting framework.
- A review includes obtaining sufficient knowledge of the entity's business and internal control, as it relates to the preparation and fair presentation of both annual and interim financial information, to enable the auditor to
 - identify the types of potential material misstatements in the interim financial information and consider the likelihood of their occurrence.
 - select the inquiries and analytical procedures that will provide the auditor with a basis for reporting whether the auditor is aware of any material modifications that should be made to the interim financial information for it to conform with the applicable financial reporting framework.

Management's responsibilities

- Management is responsible for the following:
 - Preparing and presenting the interim financial information in accordance with the applicable financial reporting framework.
 - Designing, implementing, and maintaining internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with the applicable financial reporting framework.
 - Providing the auditor with (a) access to all information of which management is aware that is relevant to the preparation and fair presentation of the interim financial information, such as records, documentation, and other matters; (b) additional information that the auditor may request from management for the purpose of the review; and (c) unrestricted access to persons within the entity of whom the auditor determines it necessary to make inquiries.
 - Including the auditor's review report in any document containing interim financial information that indicates that such information has been reviewed by the entity's auditor.
 - Identifying and ensuring that the entity complies with the laws and regulations applicable to its activities.

- Providing the auditor, at the conclusion of the engagement, with a letter confirming certain representations made during the review.
- Adjusting the interim financial information to correct material misstatements. Although a review of interim financial information is not designed to provide the auditor with reasonable assurance that the interim financial information is free from material misstatement, management nonetheless is responsible for affirming in its representation letter to the auditor that the effects of any uncorrected misstatements aggregated by the auditor during the current engagement and pertaining to the current year period(s) under review are immaterial, both individually and in the aggregate, to the interim financial information as a whole.

The auditor's responsibilities

- The auditor is responsible for conducting the review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of performing analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information as a whole. Accordingly, the auditor will not express an opinion on the interim financial information.

Limitations of the engagement

- A review does not provide a basis for expressing an opinion about whether the interim financial information is presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
- A review does not provide the auditor with a basis for obtaining reasonable assurance that the auditor will become aware of all significant findings or issues that would be identified in an audit.
- A review is not designed to provide the auditor with a basis for obtaining reasonable assurance on internal control or to identify significant deficiencies or material weaknesses in internal control; however, the auditor is responsible for communicating to management and those charged with governance any significant deficiencies or material weaknesses in internal control that the auditor identifies during the performance of review procedures.

Procedures for a Review of Interim Financial Information

Understanding the Entity and Its Environment, Including Its Internal Control (Ref: par. .11–.12)

.A7 As required by section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, the auditor who has audited the entity's financial statements for one or more annual periods would have obtained an understanding of the entity and its environment, including

its internal control as it relates to the preparation and fair presentation of annual financial information, that was sufficient to conduct the audit. Internal control over the preparation and fair presentation of interim financial information may differ from internal control over the preparation and fair presentation of annual financial statements because certain accounting principles and practices used for interim financial information may differ from those used for the preparation of annual financial statements (for example, the use of estimated effective income tax rates for the preparation of interim financial information).

.A8 The auditor is unable to complete the review 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 achieve the objective stated in paragraph .05. Paragraph .23 addresses the auditor's responsibilities when the review cannot be completed.

.A9 In an initial review of interim financial information, when performing the procedures for a new client required by paragraph .07, the auditor also may consider requesting access to review the predecessor auditor's documentation related to reviews of an interim period or interim periods in the prior year. However, the inquiries made and analytical procedures performed, or other procedures performed in the initial review, and the conclusions reached are solely the responsibility of the auditor. Therefore, the auditor is not permitted to make reference to the report or work of the predecessor auditor as the basis, in part, for the auditor's own report.

.A10 If the predecessor auditor does not respond to the auditor's inquiries or does not allow the auditor to review the predecessor auditor's documentation, the auditor may inquire why and use alternative procedures to obtain the understanding required by paragraph .11.

Analytical Procedures, Inquiries, and Other Review Procedures

Analytical Procedures (Ref: par. .13)

.A11 Procedures for conducting a review of interim financial information generally are limited to analytical procedures, inquiries, and other procedures that address significant accounting and disclosure 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 nature and extent of the inquiries made and analytical procedures performed. 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 the following procedures:

- Making additional inquiries, such as whether management monitored the changes and considered whether they were operating as intended
- Employing analytical procedures with a more precise expectation

.A12 Examples of analytical procedures that an auditor may consider performing when conducting a review of interim financial information are contained in appendix A, "Analytical Procedures the Auditor May Consider Performing When Conducting a Review of Interim Financial Information." The auditor also may find the guidance in section 520, *Analytical Procedures*, useful in conducting a review of interim financial information.

.A13 Expectations developed by the auditor in performing analytical procedures in connection with a review of interim financial information ordinarily

are less precise than those developed in an audit. Also, in a review, the auditor is not required to corroborate management's responses with other evidence.

.A14 In considering plausible relationships, the auditor may consider information developed and used by the entity (for example, analyses prepared for management or those charged with governance).

.A15 To compare disaggregated revenue data, the auditor may compare, for example, revenue reported by month and product line or operating segment during the current interim period with that of comparable prior periods.

Inquiries and Other Review Procedures (Ref: par. .14)

.A16 Many of the inquiries and review procedures can be performed before, or simultaneously with, the entity's preparation of the interim financial information. For example, the auditor may update the understanding of the entity's internal control and begin reading applicable minutes before the end of an interim period. Performing some of the review procedures earlier in the interim period also permits early identification and consideration of significant findings and issues affecting the interim financial information. In addition, when the auditor performing the review of interim financial information is also engaged to perform an audit of the annual financial statements of the entity, certain auditing procedures associated with the annual audit of the financial statements may be performed concurrently with the review of interim financial information. For example, information gained from reading the minutes of meetings of the board of directors in connection with the review also may be relevant to the annual audit. Also, there may be significant or unusual transactions occurring during an interim period (for example, business combinations, restructurings, or significant revenue transactions) for which the procedures that would need to be performed for purposes of the audit of the annual financial statements could be performed, to the extent practicable, at the time of the review of the interim period in which the transactions are first recorded.

.A17 The auditor may find the guidance in section 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, useful in conducting a review of interim financial information for an entity that prepares group financial statements.

.A18 Examples of unusual or complex situations about which the auditor may inquire of management are contained in appendix B, "Unusual or Complex Situations to Be Considered by the Auditor When Conducting a Review of Interim Financial Information."

.A19 To obtain evidence that the interim financial information agrees or reconciles with the accounting records, the auditor may compare 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.

.A20 The auditor may find the guidance in section 720, *Other Information in Documents Containing Audited Financial Statements*, useful in considering other information included in documents containing interim financial information.

.A21 The auditor may request component auditors involved in the engagement, if any, to read the other information.

Inquiry Concerning Litigation, Claims, and Assessments (Ref: par. .15)

.A22 A review of interim financial information does not contemplate obtaining corroborating evidence for responses to inquiries, such as those concerning litigation, claims, and assessments. Consequently, the auditor is not

required to send an inquiry letter to an entity's legal counsel concerning litigation, claims, and assessments.

Inquiry Concerning an Entity's Ability to Continue as a Going Concern (Ref: par. .16)

.A23 A review of interim financial information is not designed to identify conditions or events that may indicate substantial doubt about an entity's ability to continue as a going concern. However, conditions or events that may cast substantial doubt on the entity's ability to continue as a going concern may have existed at the date of the prior period financial statements or may be identified as a result of inquiries of management or in the course of performing other review procedures. When performing a review engagement, the auditor is not required to obtain evidence in support of the information that mitigates the effects of the conditions and events.

.A24 Section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, may provide useful guidance to the auditor when considering whether there is adequate and appropriate disclosure in the interim financial information about the entity's possible inability to continue as a going concern.⁴ When

- a. conditions or events exist as of the interim reporting date covered by the review that might be indicative of the entity's possible inability to continue as a going concern, or
- b. the auditor's report for the prior year end contained an emphasis-of-matter paragraph indicating the existence of substantial doubt about the entity's ability to continue as a going concern, and the conditions that raised such doubt continued to exist as of the interim reporting date covered by the review,

the auditor is not required to modify the report if there is adequate and appropriate disclosure about these conditions or events in the interim financial information. However, if the auditor determines that the disclosure about the entity's possible inability to continue as a going concern is inadequate, resulting in a departure from the applicable financial reporting framework, the auditor is required by paragraph .34 to modify the report.

Consideration of Management's Responses and Extension of Interim Review Procedures (Ref: par. .18)

.A25 The auditor's interim review procedures may lead the auditor to make additional inquiries, such as questioning whether, for example, a significant sales transaction is recorded in accordance with the applicable financial reporting framework. Additional procedures that the auditor may perform to resolve such questions include discussing the terms of the transaction with senior sales and accounting personnel, reading the sales contract, or both.

Evaluating the Results of Interim Review Procedures (Ref: par. .19–.20)

.A26 The auditor may designate an amount below which misstatements would be clearly trivial and would not need to be accumulated because the auditor expects that the accumulation of such amounts would not have a material effect on the interim financial information.⁵

⁴ Paragraph .12 of section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*. [Footnote revised, August 2012, to reflect conforming changes necessary due to the issuance of SAS No. 126.]

⁵ Paragraph .A2 of section 450, *Evaluation of Misstatements Identified During the Audit*.

.A27 As noted in paragraph .A2, appropriate financial reporting frameworks for interim financial information may include, for example, FASB ASC 270 and Article 10 of SEC Regulation S-X. FASB ASC 270 describes the applicability of GAAP to interim financial information and indicates the types of disclosures necessary to report on a meaningful basis for a period of less than one full year. FASB ASC 270-10-45-16 provides guidance on assessing materiality in interim periods. For example, it states that in determining materiality for the purpose of reporting the correction of an error, amounts shall be related to the estimated income for the full fiscal year and also to the effect on the trend of earnings. Further, Rule 10-01(a)(5) of SEC Regulation S-X states the following:

The interim financial information shall include disclosures either on the face of the financial statements or in accompanying footnotes sufficient so as to make the interim information presented not misleading. Registrants may presume that users of the interim financial information have read or have access to the audited financial statements for the preceding fiscal year and that the adequacy of additional disclosure needed for a fair presentation, except in regard to material contingencies may be determined in that context. Accordingly, footnote disclosure which would substantially duplicate the disclosure contained in the most recent annual report to security holders or latest audited financial statements, such as a statement of significant accounting policies and practices, details of accounts which have not changed significantly in amount or composition since the end of the most recently completed fiscal year, and detailed disclosures prescribed by Rule 4-08 of this Regulation, may be omitted. However, disclosure shall be provided where events subsequent to the end of the most recent fiscal year have occurred which have a material impact on the registrant. Disclosures should encompass for example, significant changes since the end of the most recently completed fiscal year in such items as: accounting principles and practices; estimates inherent in the preparation of the financial statements; status of long-term contracts; capitalization including significant new borrowings or modification of existing financing arrangements; and the reporting entity resulting from business combinations or dispositions. Notwithstanding the above, where material contingencies exist, disclosure of such matters shall be provided even though a significant change since year end may not have occurred.

.A28 Considerations that may affect the evaluation of whether uncorrected misstatements, individually or in the aggregate, are material include the following:

- The nature, cause (if known), and amount of the misstatements
- Whether the misstatements originated in the preceding year or interim periods of the current year
- Materiality judgments made in conjunction with the current or prior year's annual audit
- The potential effect of the misstatements on future interim or annual periods
- The appropriateness of offsetting a misstatement of an estimated amount with a misstatement of an item capable of precise measurement
- Recognition that an accumulation of immaterial misstatements in the balance sheet could contribute to material misstatements in future periods

Section 450, *Evaluation of Misstatements Identified During the Audit*, provides guidance regarding qualitative considerations in evaluating whether misstatements are material.

Written Representations From Management (Ref: par. .21–.22)

.A29 Exhibit A, "Illustrative Management Representation Letters for a Review of Interim Financial Information," contains illustrative representation letters for engagements to review interim financial information.

.A30 The auditor may request additional representations regarding matters specific to the entity's business or industry.

.A31 If no uncorrected misstatements were identified, the representation regarding uncorrected misstatements is not relevant and, accordingly, is not required.

.A32 Appropriate action when management does not provide one or more requested written representations or when the auditor has concerns about the reliability of the representations may include

- discussing the matter with management and, when relevant, those charged with governance;
- reevaluating the integrity of management and evaluating the effect that this may have on the reliability of representations (oral or written) and evidence in general; and
- considering whether to withdraw from the engagement to review the interim financial information and, if applicable, as the entity's auditor.

Communications With Management and Those Charged With Governance

Matters Affecting the Completion of the Review (Ref: par. .23–.26)

.A33 When an auditor is unable to perform the procedures that the auditor considers necessary to achieve the objective of a review of interim financial information, or management does not provide the auditor with the written representations that the auditor believes are necessary, the review will be incomplete.

.A34 The auditor may seek legal advice when considering whether to withdraw from the engagement to review the interim financial information and as the entity's auditor.

Other Matters (Ref: par. .27–.28)

.A35 Section 265, *Communicating Internal Control Related Matters Identified in an Audit*, provides guidance on identifying and communicating deficiencies in internal control.

.A36 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 significant and relevant to those charged with governance in overseeing the financial reporting and disclosure process. Examples of such matters include the following:

- A change in a significant accounting policy affecting the interim financial information
- Adjustments that either individually or in the aggregate could have a significant effect on the entity's financial reporting process
- Uncorrected misstatements aggregated by the auditor that were determined by management to be immaterial, both individually

and in the aggregate, to the interim financial information as a whole

A37 The objective of a review of interim financial information differs significantly from that of an audit. Therefore, any communication that the auditor may make about the quality, not just the acceptability, of the entity's accounting principles as applied to its interim financial reporting generally is limited to the effect of significant events, transactions, and changes in accounting estimates that the auditor considered when conducting the review of interim financial information. Further, interim review procedures do not provide assurance that the auditor will become aware of all matters that might affect the auditor's judgments about the quality of the entity's accounting principles that would be identified as a result of an audit.

A38 The communications required by paragraphs .23–.28 may be oral or written. The communications are most helpful when made on a sufficiently timely basis to enable management or those charged with governance to take appropriate action.

The Auditor's Report on a Review of Interim Financial Information

Form of the Auditor's Review Report (Ref: par. .29–.30)

A39 Entities may be required by third parties to engage auditors to perform a review of interim financial information, but such third parties may choose to not require that a written auditor's review report on such information be provided to users of the entity's interim financial information. For example, entities that trade unregistered private equity securities on electronic trading platforms, often referred to as private equity exchanges, may be required to provide financial and other information to the qualified investors on the exchange's website. The ongoing reporting requirements of these exchanges are substantially similar to the reporting required of issuers, wherein entities trading securities on such exchanges are required to engage auditors to review their interim financial information but are not required to include written review reports with interim financial information provided to qualified investors. Nonetheless, in accordance with paragraph .29, the auditor's report on the review of the interim financial information is required to be in writing.

A40 Reporting considerations related to the dating of reports or subsequent events encountered during a review are similar to those encountered in an audit of financial statements. Sections 560 and 700 provide guidance on these issues.

A41 Exhibit B, "Illustrations of Auditor's Review Reports on Interim Financial Information," contains illustrations of review reports.

Comparative Interim Financial Information That Has Not Been Reviewed Presented With Reviewed Interim Financial Information (Ref: par. .32)

A42 The indication that the auditor has not reviewed the prior period interim financial information and that the auditor assumes no responsibility for it may be worded, for example, as follows:

The accompanying [describe the interim financial information or statements] of ABC Company and subsidiaries as of September 30, 20X1, and for the three-month period then ended were not reviewed by us, and accordingly, we do not express any form of assurance on it.

Interim Financial Information Presented With Condensed Balance Sheet Information for the Most Recent Year End (Ref: par. .33)

.A43 Because interim financial reporting is intended to be an update to year-end reporting, condensed balance sheet information as of the most recent year end often is presented for comparative purposes with the corresponding information as of the latest interim period. Appendix B includes an illustration of a review report on comparative interim financial information that includes a condensed balance sheet derived from audited financial statements.

Modification of the Auditor's Review Report (Ref: par. .34–.35)

.A44 Departures from the applicable financial reporting framework include inadequate disclosure and changes in accounting policies that are not in accordance with the applicable financial reporting framework.

.A45 Section 700 addresses the reporting requirements when the circumstances contemplated by the "Accounting Principles Rule" (ET sec. 1.320.001) of the AICPA Code of Professional Conduct are present. [Revised, January 2015, to reflect conforming changes necessary due to the issuance of the revised AICPA Code of Professional Conduct, effective December 15, 2014.]

.A46 If the interim financial information adequately discloses the existence of substantial doubt about the entity's ability to continue as a going concern (see paragraph .16) or a lack of consistency in the application of accounting principles affecting the interim financial information, the auditor may, but is not required to, include an emphasis-of-matter paragraph in the auditor's review report.

.A47 Exhibit C, "Illustrations of Example Modifications to the Auditor's Review Report Due to Departures From the Applicable Financial Reporting Framework," contains illustrative examples of paragraphs modifying the auditor's review report.

.A48 The information necessary for adequate disclosure is influenced by the form and context in which the interim financial information is presented. For example, the disclosures considered necessary for interim financial information presented in accordance with the minimum disclosure requirements of FASB ASC 270-10-50-1, which is applicable to condensed financial statements of public companies, are considerably less extensive than those necessary for annual financial statements that present financial position, results of operations, and cash flows in accordance with the applicable financial reporting framework. FASB ASC 270-10-50-3 states that a presumption exists that users of summarized interim financial data will have read the latest published annual report, including the financial disclosures required by GAAP and management's commentary concerning the annual financial results, and that the summarized interim data will be viewed in that context.

Other Considerations (Ref: par. .38)

.A49 The auditor may seek legal advice in considering what actions, if any, may be appropriate in these circumstances.

Interim Financial Information Accompanying Audited Financial Statements (Ref: par. .40–.41)

.A50 Interim financial information may accompany audited financial statements. If management chooses or is required to present interim financial

information in a note to the audited financial statements, management is responsible for clearly marking the information as unaudited in the note.

.A51 Because the interim financial information has not been audited and is not required for the audited financial statements to be fairly stated in accordance with the applicable financial reporting framework, the auditor ordinarily need not modify the auditor's report on the audited financial statements to refer to the interim financial information accompanying the audited financial statements, including when the auditor has performed a review in accordance with this section.

Documentation (Ref: par. .42–.43)

.A52 The auditor may find the guidance in section 230, *Audit Documentation*, useful in determining the form and content of the review documentation, including guidance on the timing of the final assembly of the engagement documentation.

.A53 Examples of findings or issues that, in the auditor's judgment, are significant include the results of review procedures that indicate that the interim financial information could be materially misstated, including actions taken to address such findings, and the basis for the final conclusions reached.

Appendix A—Analytical Procedures the Auditor May Consider Performing When Conducting a Review of Interim Financial Information (Ref: par. .A12)

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. Examples of analytical procedures that an auditor may consider performing in a review of interim financial information include the following:

- Comparing current interim financial information with the interim financial information of the immediately preceding interim period, the interim financial information of the corresponding interim period of the preceding financial year, and 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 and pretax income in the current interim financial information with corresponding information in (a) budgets, using expected rates, and (b) financial information for prior periods). Caution is necessary 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 the susceptibility of such information to manipulation and misstatement by management to reflect desired interim results.
- Comparing current interim financial information with relevant nonfinancial 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 operating 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:

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- By period (for example, interim financial information items disaggregated into quarterly, monthly, or weekly amounts)
- By product line or operating segment
- By location (for example, subsidiary, division, or branch)

Analytical procedures may include such statistical techniques as trend analysis or regression analysis and may be performed manually or with the use of computer-assisted techniques.

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Appendix B—Unusual or Complex Situations to Be Considered by the Auditor When Conducting a Review of Interim Financial Information (Ref: par. .A18)

The following are examples of situations about which the auditor may inquire of management:

- Business combinations
- New or complex revenue recognition methods
- Impairment of assets
- Disposal of a segment of a business
- Use of derivative instruments and hedging activities
- Sales and transfers that may call into question the classification of investments in securities, including management's intent and ability with respect to the remaining securities classified as held to maturity
- Adoption of new stock compensation plans or changes to existing plans
- Restructuring charges taken in the current and prior quarters
- Significant, unusual, or infrequently occurring transactions
- Changes in litigation or contingencies
- Changes in major contracts with customers or suppliers
- Application of new accounting principles
- Changes in accounting principles or the methods of applying them
- Trends and developments affecting accounting estimates, such as allowances for bad debts and excess or obsolete inventories, provisions for warranties and employee benefits, and realization of unearned income and deferred charges
- Compliance with debt covenants
- Changes in related parties or significant new related party transactions
- Material off-balance-sheet transactions, special purpose entities, and other equity investments
- Unique terms for debt or capital stock that could affect classification

.A56

Exhibit A—Illustrative Management Representation Letters for a Review of Interim Financial Information (Ref: par. .A29)

The following management representation letters, which relate to a review of interim financial information, are presented for illustrative purposes only.

Illustration 1—Short Form Representation Letter for a Review of Interim Financial Information

Illustration 2—Detailed Representation Letter for a Review of Interim Financial Information

It is assumed in these illustrations that the applicable financial reporting framework is accounting principles generally accepted in the United States of America, that no conditions or events exist that might be indicative of the entity's possible inability to continue as a going concern, and that no exceptions exist to the requested written representations. If circumstances differ from these assumptions, the representations would need to be modified to reflect the actual circumstances.

Illustration 1—Short Form Representation Letter for a Review of Interim Financial Information

This representation letter is to be used in conjunction with the representation letter for the audit of the financial statements of the prior year. Management confirms the representations made in the representation letter for the audit of the financial statements of the prior year end, as they apply to the interim financial information, and makes additional representations that may be needed for the interim financial information.

[Date]

To [Independent Auditor]:

This representation letter is provided in connection with your review of the [consolidated] balance sheet as of June 30, 20X1 and the related [consolidated] statements of income, changes in equity, and cash flows for the six-month period then ended of ABC Company for the purpose of reporting whether any material modifications should be made to the [consolidated] interim financial information for it to be in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) [including, if appropriate, an indication as to the appropriate form and content of interim financial information (for example, Article 10 of SEC Regulation S-X)].

We confirm that [, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves] [as of (date of auditor's review report),]:

Interim Financial Information

1. We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated *[insert date]* for the preparation and fair presentation of interim financial information in accordance with U.S. GAAP; in particular the interim financial information is presented in accordance therewith.
2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of interim financial information that is free from material misstatement, whether due to fraud or error.
3. The interim financial information has been adjusted or includes disclosures for all events subsequent to the date of the interim financial information for which U.S. GAAP requires adjustment or disclosure.
4. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the interim financial information as a whole. A list of the uncorrected misstatements is attached to the representation letter.

[Any other matters that the auditor may consider appropriate]

Information Provided

5. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation and fair presentation of the interim financial information such as records, documentation, and other matters;
 - Minutes of the meetings of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared;
 - Additional information that you have requested from us for the purpose of the review; and
 - Unrestricted access to persons within the entity of whom you determined it necessary to make inquiries.
6. We have disclosed to you all significant deficiencies or material weaknesses in the design or operation of internal control of which we are aware, as it relates to the preparation and fair presentation of both annual and interim financial information.
7. We have disclosed to you the results of our assessment of the risk that the interim financial information may be materially misstated as a result of fraud.
8. We have *[no knowledge of any]* *[disclosed to you all information of which we are aware in relation to]* fraud or suspected fraud that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others when the fraud could have a material effect on the interim financial information.
9. We have *[no knowledge of any]* *[disclosed to you all information in relation to]* allegations of fraud, or suspected fraud, affecting

the entity's interim financial information communicated by employees, former employees, analysts, regulators, or others.

10. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
[*Any other matters that the auditor may consider necessary*]
11. We have reviewed our representation letter to you dated [*date of representation letter relating to most recent audit*] with respect to the audited consolidated financial statements as of and for the year ended [*prior year-end date*]. We believe that representations [*references to applicable representations*] within that representation letter do not apply to the interim financial information referred to above. We now confirm those representations [*references to applicable representations*], as they apply to the interim financial information referred to above, and incorporate them herein, with the following changes:
[*Indicate any changes.*]
12. [*Add any representations related to new accounting or auditing standards that are being implemented for the first time.*]

[*Name of Chief Executive Officer and Title*]

[*Name of Chief Financial Officer and Title*]

[*Name of Chief Accounting Officer and Title*]

Illustration 2—Detailed Representation Letter for a Review of Interim Financial Information

This representation letter is similar in detail to the management representation letter used for the audit of the financial statements of the prior year and, thus, need not refer to the written management representations received in the most recent audit.

[*Date*]

To [*Independent Auditor*]:

This representation letter is provided in connection with your review of the [*consolidated*] balance sheet as of June 30, 20X1 and the related [*consolidated*] statements of income, changes in equity, and cash flows for the six-month period then ended of ABC Company for the purpose of reporting whether any material modifications should be made to the [*consolidated*] interim financial information for it to be in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) [*including, if appropriate, an indication as to the appropriate form and content of interim financial information (for example, Article 10 of SEC Regulation S-X)*].

We confirm that [, *to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves*] [*as of (date of auditor's review report),*]:

Interim Financial Information

1. We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated *[insert date]* for the preparation and fair presentation of the interim financial information in accordance with U.S. GAAP; in particular the interim financial information is presented in accordance therewith.
2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of interim financial information that is free from material misstatement, whether due to fraud or error.
3. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
5. The interim financial information has been adjusted or includes disclosures for all events subsequent to the date of the interim financial information for which U.S. GAAP requires adjustment or disclosure.
6. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the interim financial information as a whole. A list of the uncorrected misstatements is attached to the representation letter.

[Any other matters that the auditor may consider appropriate]

Information Provided

7. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation and fair presentation of the interim financial information such as records, documentation, and other matters;
 - Minutes of the meetings of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared;
 - Additional information that you have requested from us for the purpose of the review; and
 - Unrestricted access to persons within the entity of whom you determined it necessary to make inquiries.
8. All transactions have been recorded in the accounting records and are reflected in the interim financial information.
9. We have disclosed to you all significant deficiencies or material weaknesses in the design or operation of internal control of which we are aware, as it relates to the preparation and fair presentation of both annual and interim financial information.
10. We have disclosed to you the results of our assessment of the risk that the interim financial information may be materially misstated as a result of fraud.
11. We have *[no knowledge of any]**[disclosed to you all information of which we are aware in relation to]* fraud or suspected fraud that affects the entity and involves:

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- Management;
 - Employees who have significant roles in internal control; or
 - Others when the fraud could have a material effect on the interim financial information.
12. We have *[no knowledge of any]**[disclosed to you all information in relation to]* allegations of fraud, or suspected fraud, affecting the entity's interim financial information communicated by employees, former employees, analysts, regulators, or others.
 13. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing interim financial information.
 14. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
 15. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

[Any other matters that the auditor may consider necessary]

[Name of Chief Executive Officer and Title]

[Name of Chief Financial Officer and Title]

[Name of Chief Accounting Officer and Title]

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Exhibit B—Illustrations of Auditor’s Review Reports on Interim Financial Information (Ref: par. .A41)

Illustration 1—A Review Report on Interim Financial Information

Illustration 2—A Review Report on Condensed Comparative Interim Financial Information

Illustration 3—A Review Report That Refers to a Component Auditor's Review Report on the Interim Financial Information of a Significant Component of a Reporting Entity

Illustration 4—A Review Report on Comparative Interim Financial Information When the Prior Period Was Reviewed by Another Auditor

Illustration 1—A Review Report on Interim Financial Information

Circumstances include the following:

- A review of interim financial information presented as a complete set of financial statements, including disclosures

Independent Auditor's Review Report

[Appropriate Addressee]

Report on the Financial Statements

We have reviewed the accompanying [describe the interim financial information or statements reviewed] of ABC Company and subsidiaries as of September 30, 20X1, and for the three-month and nine-month periods then ended.

Management’s Responsibility

The Company's management is responsible for the preparation and fair presentation of the interim financial information in accordance with [identify the applicable financial reporting framework; for example, accounting principles generally accepted in the United States of America]; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with [identify the applicable financial reporting framework; for example, accounting principles generally accepted in the United States of America].

Auditor’s Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in accordance with *[identify the applicable financial reporting framework; for example, accounting principles generally accepted in the United States of America]*.

[Auditor's signature]

[Auditor's city and state]

[Date of the auditor's report]

Illustration 2—A Review Report on Condensed Comparative Interim Financial Information

The following is an example of a review report on a condensed balance sheet as of March 31, 20X1; the related condensed statements of income and cash flows for the three-month periods ended March 31, 20X1 and 20X0; and a condensed balance sheet derived from audited financial statements as of December 31, 20X0. If the auditor's report on the preceding year-end financial statements was other than unmodified or included an emphasis-of-matter paragraph because of a going concern matter or an inconsistency in the application of accounting principles, the last paragraph of the illustrative report would be appropriately modified.

Independent Auditor's Review Report

[Appropriate Addressee]

Report on the Financial Statements

We have reviewed the condensed consolidated financial statements of ABC Company and subsidiaries, which comprise the balance sheet as of March 31, 20X1, and the related condensed consolidated statements of income and cash flows for the three-month periods ended March 31, 20X1 and 20X0.

Management's Responsibility

The Company's management is responsible for the preparation and fair presentation of the condensed financial information in accordance with *[identify the applicable financial reporting framework; for example, accounting principles generally accepted in the United States of America]*; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with *[identify the applicable financial reporting framework; for example, accounting principles generally accepted in the United States of America]*.

Auditor's Responsibility

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the condensed financial information referred to above for it

to be in accordance with *[identify the applicable financial reporting framework; for example, accounting principles generally accepted in the United States of America]*.

Report on Condensed Balance Sheet as of [Date]

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of December 31, 20X0, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated February 15, 20X1. In our opinion, the accompanying condensed consolidated balance sheet of ABC Company and subsidiaries as of December 31, 20X0, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

[Auditor's signature]

[Auditor's city and state]

[Date of the auditor's report]

Illustration 3—A Review Report That Refers to a Component Auditor's Review Report on the Interim Financial Information of a Significant Component of a Reporting Entity

Circumstances include the following:

- A review of interim financial information presented as a complete set of financial statements, including disclosures.
- The auditor is making reference to another auditor's review report on the interim financial information of a significant component of a reporting entity.

Independent Auditor's Review Report

[Appropriate Addressee]

Report on the Financial Statements

We have reviewed the accompanying *[describe the interim financial information or statements reviewed]* of ABC Company and subsidiaries as of September 30, 20X1, and for the three-month and nine-month periods then ended.

Management's Responsibility

The Company's management is responsible for the preparation and fair presentation of the interim financial information in accordance with *[identify the applicable financial reporting framework; for example, accounting principles generally accepted in the United States of America]*; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with *[identify the applicable financial reporting framework; for example, accounting principles generally accepted in the United States of America]*.

Auditor's Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less

in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

We were furnished with the report of other auditors on their review of the interim financial information of DEF subsidiary, whose total assets as of September 30, 20X1, and whose revenues for the three-month and nine-month periods then ended, constituted 15 percent, 20 percent, and 22 percent, respectively, of the related consolidated totals.

Conclusion

Based on our review and the review report of other auditors, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in accordance with *[identify the applicable financial reporting framework; for example, accounting principles generally accepted in the United States of America]*.

[Auditor's signature]

[Auditor's city and state]

[Date of the auditor's report]

Illustration 4—A Review Report on Comparative Interim Financial Information When the Prior Period Was Reviewed by Another Auditor

Circumstances include the following:

- A review of interim financial information presented as a complete set of financial statements, including disclosures as of March 31, 20X1, and for the three-month period then ended.
- Comparative information is presented for the balance sheet as of December 31, 20X0, and for the statements of income and cash flows for the comparable interim period.
- The December 31, 20X0, financial statements were audited, and the March 31, 20X0, interim financial information was reviewed, by another auditor.

Independent Auditor's Review Report

[Appropriate Addressee]

Report on the Financial Statements

We have reviewed the accompanying *[describe the interim financial information or statements reviewed]* of ABC Company and subsidiaries as of March 31, 20X1, and for the three-month period then ended. The consolidated statements of income and cash flows of ABC Company and subsidiaries for the three-month period ended March 31, 20X0, were reviewed by other auditors whose report dated June 1, 20X0, stated that based on their review, they were not aware of any material modifications that should be made to those statements in order for them to be in accordance with *[identify the applicable financial reporting framework; for example, accounting principles generally accepted in the United States of America]*. The consolidated balance sheet of the Company as of December 31, 20X0, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year then ended (not presented herein), were audited by other auditors whose report dated March 15, 20X1, expressed an unmodified opinion on those statements.

Management's Responsibility

The Company's management is responsible for the preparation and fair presentation of the interim financial information in accordance with *[identify the applicable financial reporting framework; for example, accounting principles generally accepted in the United States of America]*; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with *[identify the applicable financial reporting framework; for example, accounting principles generally accepted in the United States of America]*.

Auditor's Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial information as of and for the three months ended March 31, 20X1, for it to be in accordance with *[identify the applicable financial reporting framework; for example, accounting principles generally accepted in the United States of America]*.

[Auditor's signature]

[Auditor's city and state]

[Date of the auditor's report]

.A58

Exhibit C—Illustrations of Example Modifications to the Auditor's Review Report Due to Departures From the Applicable Financial Reporting Framework (Ref: par. .A47)

Illustration 1—Modification Due to a Departure From the Applicable Financial Reporting Framework

Illustration 2—Modification Due to Inadequate Disclosure

Illustration 3—Emphasis-of-Matter Paragraph When a Going Concern Emphasis-of-Matter Paragraph Was Included in the Prior Year's Audit Report, and Conditions Giving Rise to the Emphasis-of-Matter Paragraph Continue to Exist

Illustration 4—Emphasis-of-Matter Paragraph When a Going Concern Emphasis-of-Matter Paragraph Was Not Included in the Prior Year's Audit Report, and Conditions or Events Exist as of the Interim Reporting Date Covered by the Review That Might Be Indicative of the Entity's Possible Inability to Continue as a Going Concern

Illustration 1—Modification Due to a Departure From the Applicable Financial Reporting Framework

The following is an example of a modification of the auditor's review report due to a departure from the applicable financial reporting framework:

[Basis for Modification Paragraph]

Based on information furnished to us by management, we believe that the Company has excluded from property and debt in the accompanying balance sheet certain lease obligations that we believe should be capitalized to be in accordance with *[identify the applicable financial reporting framework; for example, accounting principles generally accepted in the United States of America]*. This information indicates that if these lease obligations were capitalized at September 30, 20X1, property would be increased by \$_____, long-term debt would be increased by \$_____, and net income would be increased (decreased) by \$_____ and \$_____, respectively, for the three-month and nine-month periods then ended.

[Conclusion]

Based on our review, with the exception of the matter(s) described in the preceding paragraph(s), we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in accordance with *[identify the applicable financial reporting framework; for example, accounting principles generally accepted in the United States of America]*.

Illustration 2—Modification Due to Inadequate Disclosure

The following is an example of a modification of the auditor's review report due to inadequate disclosure:

[Basis for Modification Paragraph]

Management has informed us that the Company is presently defending a claim regarding *[describe the nature of the loss contingency]* and that the extent of the Company's liability, if any, and the effect on the accompanying interim financial information is not determinable at this time. The interim financial information fails to disclose these matters, which we believe are required to be disclosed in accordance with *[identify the applicable financial reporting framework; for example, accounting principles generally accepted in the United States of America]*.

[Conclusion]

Based on our review, with the exception of the matter(s) described in the preceding paragraph(s), we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in accordance with *[identify the applicable financial reporting framework; for example, accounting principles generally accepted in the United States of America]*.

Illustration 3—Emphasis-of-Matter Paragraph When a Going Concern Emphasis-of-Matter Paragraph Was Included in the Prior Year's Audit Report, and Conditions Giving Rise to the Emphasis-of-Matter Paragraph Continue to Exist

The following is an example of an emphasis-of-matter paragraph when a going concern emphasis-of-matter paragraph was included in the prior year's audit report, and conditions giving rise to the emphasis-of-matter paragraph continue to exist:

[Emphasis-of-Matter Paragraph]

Note 4 of the Company's audited financial statements as of December 31, 20X1, and for the year then ended, discloses that the Company was unable to renew its line of credit or obtain alternative financing at December 31, 20X1. Our auditor's report on those financial statements includes an emphasis-of-matter paragraph referring to the matters in note 4 of those financial statements and indicating that these matters raised substantial doubt about the Company's ability to continue as a going concern. As indicated in note 3 of the Company's unaudited interim financial information as of March 31, 20X2, and for the three months then ended, the Company was still unable to renew its line of credit or obtain alternative financing as of March 31, 20X2. The accompanying interim financial information does not include any adjustments that might result from the outcome of this uncertainty.

Illustration 4—Emphasis-of-Matter Paragraph When a Going Concern Emphasis-of-Matter Paragraph Was Not Included in the Prior Year's Audit Report, and Conditions or Events Exist as of the Interim Reporting Date Covered by the Review That Might Be Indicative of the Entity's Possible Inability to Continue as a Going Concern

The following is an example of an emphasis-of-matter paragraph when a going concern emphasis-of-matter paragraph was not included in the prior year's audit report, and conditions or events exist as of the interim reporting date covered by the review that might be indicative of the entity's possible inability to continue as a going concern:

[Emphasis-of-Matter Paragraph]

As indicated in note 3, certain conditions indicate that the Company may be unable to continue as a going concern. The accompanying interim financial information does not include any adjustments that might result from the outcome of this uncertainty.
