



## **Auditor Review of Interim Financial Statements**

### **November 2013**

**COMMENTS MUST BE RECEIVED BY  
JANUARY 15, 2014**

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This Exposure Draft reflects proposals made by the Auditing and Assurance Standards Board (AASB).

Individuals and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they are related to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. All comments received by the AASB will be available on the website shortly after the comment dead-line, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

**To be considered, comments must be received by  
January 15, 2014, addressed to:**

**Greg Shields, CPA, CA  
Director, Auditing and Assurance Standards  
Auditing and Assurance Standards Board  
277 Wellington Street West  
Toronto, Ontario M5V 3H2**

A PDF [response form](#) has been posted with this document to assist you in submitting your comments. Alternatively, you may send comments by e-mail (in Word format), to: [ed.assurancestds@cpacanada.ca](mailto:ed.assurancestds@cpacanada.ca)

## Proposal

The Auditing and Assurance Standards Board (AASB) proposes, subject to comments received following exposure, to issue AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS, Section 7060. Section 7060 will replace extant Section 7050 of the same name.

## Background

In November 2010, the AASB approved a project to revise or replace Sections and Guidelines in the CPA Handbook – Assurance that focus primarily on the auditor’s role and responsibilities in the capital markets (“7000 series”). Part of the 7000 series project involves revising and replacing Section 7050.

## Effective Date

Subject to input the AASB receives from Canadian stakeholders, proposed Section 7060 would be effective for reviews of interim financial statements for interim periods of fiscal years beginning on or after December 15, 2014, with earlier adoption permitted. In the AASB’s view, the proposed effective date would allow sufficient time for implementation of Section 7060.

## Main features of the Exposure Draft

### *Focus on providing assistance to the audit committee*

Consistent with extant Section 7050, the focus of the auditor in conducting an interim review under Section 7060 is to assist the audit committee in discharging its responsibilities with respect to interim financial statements that are to be issued under the provisions of securities legislation.

Accordingly, the auditor’s interim review report is a special purpose report provided only to the audit committee. The auditor’s interim review report may be delivered either in written or oral form. This is in contrast to a practitioner’s review engagement report under [proposed] CSRE 2400, *Engagements to Review Historical Financial Statements*, which is normally unrestricted and must be provided in writing.

In developing Section 7060, the AASB considered whether the focus of providing assistance to the audit committee should be retained, or whether the focus should be on rendering assurance on the interim financial statements by way of a general purpose report.

Members of audit committees are likely to be knowledgeable about financial reporting and are in a position to determine the nature and extent of the assistance they need from the auditor. In addition, they can question the auditor about the interim review procedures carried out, and the results of those procedures, to gain a better understanding of the work the auditor has performed. As a result, they will become aware of the limitations of an interim review and the lower level of assurance provided by such a review as compared to that provided by an audit. As well, they are able to make

additional inquiries and carry out other procedures in discharging their responsibilities with respect to the interim financial statements.

On the other hand, investors and investment analysts may not always be familiar with the limited level of assurance provided by an interim review. Also, they are not in a position to influence the work an auditor carries out in performing an interim review, or to discuss the review procedures and the results with the auditor.

Consequently, an auditor is likely to be able to obtain a basis for reporting to the audit committee on a timelier basis than for reporting to investors and investment analysts. Therefore, the AASB is of the view that the focus on assisting the audit committee promotes high quality interim financial statements in a practical way.

#### *Auditor's interim review report*

Since the auditor is providing comments to the audit committee and not to the general public, the AASB is of the view that oral communication of the interim review report is sufficient, except in circumstances discussed in paragraph A30.

Extant paragraph 7050.60 sets out the contents of an auditor's interim review report that is issued in writing. In the AASB's view, a requirement relating to contents of the auditor's interim review report should also apply to an interim review report that is provided orally, even though the auditor may communicate the matters in a less structured or formal manner. This view is reflected in paragraphs 23 and A31.

Extant paragraph 7050.60(h) requires the auditor's interim review report to include a statement:

- (a) restricting the use of the report to the addressee for its assistance in reviewing the interim financial statements ("a restriction on use"); and
- (b) disclaiming responsibility to any third party who may rely on it ("a disclaimer of responsibility").

These paragraphs were drafted to highlight the purpose of the interim review, which is to provide assistance to the audit committee, and to reduce the likelihood that a party for whom the auditor's interim review report was not intended would place unwarranted reliance on the report. In the AASB's view, a restriction on use alone is adequate to achieve these objectives. Accordingly, in paragraph 23(h), the AASB proposes to require the auditor's interim review report to include a restriction on use but not a disclaimer of responsibility.

### *New requirements*

The new requirements noted below primarily reflect matters that were formerly guidance in extant Section 7050. Such requirements relate to the following:

- (a) written agreement of terms of engagement with both management and the audit committee as set out in paragraphs 4-5;
- (b) inquiries relating to fraud, illegal acts, and non-compliance with provisions of laws and regulations as set out in paragraph 12;
- (c) procedures relating to going concern as set out in paragraph 13;
- (d) accumulation and evaluation of misstatements as set out in paragraph 18(a);
- (e) responses to discovery of a material misstatement subsequent to the issuance of the auditor's interim review report as set out in paragraphs 34-35; and
- (f) content and extent of documentation as set out in paragraph 37.

In addition, new requirements were developed to improve the clarity of extant Section 7050. Such requirements relate to the following:

- (a) determination of materiality as set out in paragraphs 7-8;
- (b) identification of the risks of material misstatement, and design and performance of procedures to address the identified risks (as opposed to obtaining an understanding of the entity and its environment sufficient to identify types of potential material misstatements) as set out in paragraphs 10-11;
- (c) the auditor's response when he or she becomes aware of a misrepresentation (as opposed to an untrue statement of a material fact) in the interim management discussion and analysis as set out in paragraph 14;
- (d) the date of management representation as set out in paragraph 16; and
- (e) communication of the effect of accumulated misstatements to management and the audit committee in misstatements as set out in paragraph 18 (b).

### *Expressing a modified conclusion in the auditor's interim review report*

Extant paragraph 7050.57 requires the auditor to express a qualification in the interim review report if the auditor believes that the interim financial statements "probably contain a material departure from the applicable financial reporting framework." The AASB proposes to clarify that the auditor is required to express a modified conclusion if he or she concludes that any material modification is necessary for the interim financial statements to be in accordance with the applicable financial reporting framework as set out in paragraph 25.

## Comments requested

The AASB requests comments on any aspect of proposed Section 7060. Comments are most helpful when they are related to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. When a respondent agrees with proposals in the Exposure Draft, it will be helpful for the AASB to be made aware of this view.

The AASB would also welcome views on the following questions:

1. Do you agree with retaining the focus on providing assistance to the audit committee?
2. Do you agree that it is appropriate for the auditor to provide an oral auditor's interim review report, except in the limited circumstances described in paragraph A30?
3. Do you agree with extending the requirements relating to the contents of the auditor's interim review report to interim review reports that are delivered orally?
4. Do you agree with retaining a restriction on use but not a disclaimer of responsibility in the requirement relating to the contents of the auditor's interim review report?
5. Do you agree with the proposed new requirements?
6. Do you agree with the threshold for expressing a modified conclusion in the auditor's interim review report as set out in paragraph 25?

The deadline for providing your comments to the AASB on the above is January 15, 2014.

For your convenience, a PDF [response form](#) has been posted with this document to assist you in submitting your comments. Alternatively, you may send comments by email (in Word format), to: [assurancestds@cpacanada.ca](mailto:assurancestds@cpacanada.ca)

# SECTION 7060

## AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

(Effective for reviews of interim financial statements for interim periods of fiscal years beginning on or after December 15, 2014)

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## **Introduction**

### **Scope of this Section**

1. This Section deals with the interim review of an entity's interim financial statements by its auditor (an "interim review"). The purpose of an engagement under this Section is to assist the audit committee in discharging its responsibilities with respect to interim financial statements that are to be issued under the provisions of securities legislation. (Ref: Para. A1-A5)

### **Effective Date**

2. This Section is effective for reviews of interim financial statements for interim periods of fiscal years beginning on or after December 15, 2014.

### **Objective**

3. The objective of the auditor is to obtain a basis for reporting to the audit committee as to whether the auditor is aware of any material modification that should be made to the interim financial statements for those statements to be in accordance with the applicable financial reporting framework. (Ref: Para. A6-A7)

## **Requirements**

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

4. The auditor shall agree the terms of the engagement with management and the audit committee prior to performing the engagement.
  5. The agreed terms of the engagement shall be recorded in an engagement letter or other suitable form of written agreement and shall include:
    - (a) The objectives and scope of the engagement;
    - (b) The responsibilities of management and the audit committee;
    - (c) The responsibilities of the auditor;
    - (d) Reference to the expected form and content of the auditor's interim review report; and
    - (e) A statement that a written auditor's interim review report will accompany the interim financial statements if:
      - (i) The auditor's interim review is to be referred to in any public document; or
      - (ii) The auditor's interim review report contains a modified conclusion relating to a departure from the applicable financial reporting framework, unless the departure from the applicable financial reporting framework is a result of an exemption permitted by securities regulations.
- (Ref: Para. A8-A9)

### **Communication with the Audit Committee**

6. The auditor shall communicate to the audit committee, on a timely basis, all matters concerning the interim review that, in the auditor's professional judgment, are of sufficient importance to merit the attention of the audit committee. (Ref: Para. A10)

## **Performing the Engagement**

### *Materiality*

7. The auditor shall determine materiality for the interim financial statements as a whole for the purpose of performing the interim review, which includes evaluating the results obtained from interim review procedures. (Ref: Para. A11-A12)
8. The auditor shall revise materiality as determined under paragraph 7 in the event that, in performing the interim review, the auditor becomes aware of information that would have caused the auditor to have determined a different materiality initially.

### *Understanding the Entity and Its Environment, Including Its Internal Control*

9. The auditor shall obtain a sufficient understanding of the entity and its environment, including internal control as it relates to the preparation of both annual and interim financial statements, to be able to provide a basis to identify the risks that are likely to result in material misstatement of the interim financial statements. (Ref: Para. A13-A15)

### *Identifying the Risks that Are Likely to Result in Material Misstatement*

10. The auditor shall identify the risks that are likely to result in material misstatement of the interim financial statements to provide a basis for designing and performing inquiries and analytical procedures.

### *Designing and Performing Procedures*

11. In obtaining a basis for concluding on the interim financial statements as a whole, the auditor shall:
  - (a) Consider all material items in the interim financial statements, including disclosures; and
  - (b) Design and perform inquiries and analytical procedures to focus on addressing the identified risks that are likely to result in material misstatement of the interim financial statements. (Ref: Para. A16-A21)
12. The auditor's inquiries of officials having responsibility for financial and accounting matters shall include the existence of any actual, suspected or alleged:
  - (a) Fraud or illegal acts affecting the entity; and
  - (b) Non-compliance with provisions of laws and regulations that are generally recognized to have a direct effect on the determination of material amounts and disclosures in the interim financial statements. (Ref: Para. A22)

### *Procedures to Address Specific Circumstances*

#### **Going Concern**

13. If, during the performance of the interim review, the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor's procedures shall include:
  - (a) Inquiries of management about:
    - (i) Whether management has identified any material uncertainty;



- (ii) Plans for future actions affecting the entity's ability to continue as a going concern;
- (iii) The feasibility of those plans; and
- (iv) Whether management believes the outcome of those plans will improve the situation regarding the entity's ability to continue as a going concern;
- (b) Consideration of management's responses in light of all relevant information of which the auditor is aware; and
- (c) Evaluation of whether management's responses provide an appropriate basis to:
  - (i) Support the preparation of the interim financial statements on a going concern basis; and
  - (ii) Conclude whether the interim financial statements are materially misstated, or are otherwise misleading, as a result of inadequate disclosure with respect to a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

#### Interim Management Discussion and Analysis

14. The auditor shall read the information contained in the interim Management Discussion and Analysis and consider whether such information is materially inconsistent with the interim financial statements. If the auditor identifies an inconsistency that indicates that there may be a material misstatement in the interim financial statements, the auditor shall determine what effect, if any, the inconsistency has on the interim financial statements. The auditor may also become aware of information that indicates that there may be a misrepresentation in the interim Management Discussion and Analysis. If the auditor concludes that there is a material misstatement in the interim financial statements or becomes aware of information that the auditor believes is a material misrepresentation in the interim Management Discussion and Analysis, the auditor shall take action based on the auditor's professional judgment.  
(Ref: Para. A23-A24)

#### *Written Representations*

15. The auditor shall obtain written representations from management that:
  - (a) The interim financial statements for the period(s) under review are prepared in accordance with the applicable financial reporting framework;
  - (b) The interim financial statements include appropriate disclosure and accounting treatment of events occurring subsequent to the most recent date of the statement of financial position;
  - (c) Management is responsible for establishing and maintaining effective control over financial reporting;
  - (d) The effects of any uncorrected misstatements identified by the auditor are immaterial, both individually and in the aggregate, to the interim financial statements for the period(s) under review;
  - (e) Management has made available to the auditor all financial records and related data, and complete minutes of meetings of shareholders, directors and committees of the board of directors; and

- (f) Management has disclosed to the auditor any knowledge of actual, suspected or alleged fraud or illegal or possibly illegal acts affecting the entity.

The auditor shall also obtain such additional representations as are appropriate. (Ref: Para. A25-A26)

- 16. The date of the written representations shall be as near as practicable to, but not after, the date of the auditor's interim review report.

#### *Additional Procedures*

- 17. If the auditor becomes aware of a matter that represents a possible misstatement that is not clearly trivial, the auditor shall perform additional procedures to resolve the matter.  
(Ref: Para. A27)

#### *Accumulation and Evaluation of Misstatements*

- 18. The auditor shall accumulate misstatements identified during the interim review, other than those that are clearly trivial, and:
  - (a) Evaluate misstatements, both individually and in the aggregate (including inadequate disclosure), to determine whether any material modification needs to be made to the interim financial statements for them to be in accordance with the applicable financial reporting framework; and
  - (b) Communicate the effect of those misstatements to management and the audit committee.  
(Ref: Para. A28)

#### *Resolution of Matters*

- 19. If the auditor concludes that the accumulated misstatements would result in the need for any material modification to the interim financial statements for them to be in accordance with the applicable financial reporting framework, the auditor shall discuss the matter with the appropriate level of management as soon as practicable. If, in the professional judgment of the auditor, management does not respond appropriately, the auditor shall inform the audit committee of the matter as soon as practicable. (Ref: Para. A29)
- 20. If, in the professional judgment of the auditor, the audit committee does not respond appropriately with respect to a matter as described in paragraph 19, the auditor shall determine whether to:
  - (a) Express a modified conclusion in the auditor's interim review report (see paragraphs 26-28);
  - (b) Resign from the interim review engagement; or
  - (c) Resign from the appointment to audit the annual financial statements. (Ref: Para. A36)
- 21. If the auditor is unable to complete the interim review, the auditor shall not issue an auditor's interim review report and shall communicate to the audit committee as soon as practicable:
  - (a) That the auditor is unable to complete the interim review and the reasons therefor;
  - (b) That an incomplete interim review is not an adequate basis for reporting and, accordingly, the auditor is precluded from providing an auditor's interim review report; and

- (c) If applicable, any material modification of which the auditor has become aware that the auditor believes needs to be made to the interim financial statements for them to be in accordance with the applicable financial reporting framework.

## **The Auditor's Interim Review Report**

### *Form and Content of the Auditor's Interim Review Report*

- 22. The auditor shall issue an auditor's interim review report, in either oral or written form, to communicate the nature and extent of the auditor's involvement with the entity's interim financial statements and the results of the interim review. (Ref: Para. A30)
- 23. The auditor's interim review report, whether written or oral, shall include the following:
  - (a) An addressee (normally the audit committee);
  - (b) Identification of the interim financial statements reviewed;
  - (c) A statement that the interim financial statements are the responsibility of the entity's management;
  - (d) A statement that the review of the interim financial statements was performed in accordance with Canadian generally accepted standards for a review of interim financial statements by an entity's auditor, and that such an interim review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters;
  - (e) A statement that an interim review is substantially less in scope than an audit, whose objective is an expression of opinion regarding the financial statements, and that accordingly, no such opinion is expressed;
  - (f) A statement that an interim review does not provide assurance that the auditor would become aware of any or all significant matters affecting the interim financial statements that might be identified in an audit;
  - (g) A statement about whether the auditor is aware of any material modification that needs to be made for the interim financial statements to be in accordance with the applicable financial reporting framework;
  - (h) A statement restricting the use of the report to the addressee for its assistance in reviewing the interim financial statements;
  - (i) The date of the report; and
  - (j) The name of the auditor. (Ref: Para. A31-A32)

### *Written Consent to the Inclusion of the Auditor's Interim Review Report in a Public Document*

- 24. An auditor shall not issue a written consent to the inclusion of the auditor's interim review report in a public document, unless the written consent is required, pursuant to securities legislation, to the use of the auditor's interim review report on financial statements included in a prospectus. (Ref: Para. A33)

### *Modified Conclusion*

25. If the auditor concludes that any material modification is necessary for the interim financial statements to be in accordance with the applicable financial reporting framework, the auditor shall express:
  - (a) A qualified conclusion, when the auditor concludes that the effects of the matter(s) giving rise to the modification are material, but not pervasive to the interim financial statements; or
  - (b) An adverse conclusion, when the auditor concludes that the effects of the matter(s) giving rise to the modification are both material and pervasive to the interim financial statements.
26. If the auditor's interim review report contains a modified conclusion, the report shall:
  - (a) Describe the nature of the departure(s) from the applicable financial reporting framework and;
  - (b) If readily determinable, state the effects of the departure(s) on the interim financial statements.
27. If the auditor's interim review report contains a modified conclusion, the auditor shall issue a written auditor's interim review report. In addition, the auditor shall request that the written auditor's interim review report accompany the interim financial statements, unless the matter(s) giving rise to the modification is a result of an exemption permitted by securities regulations.

### *Comparative Figures and Additional Information in the Auditor's Interim Review Report*

28. When comparative figures:
  - (a) Are based on information reported on by another auditor or public accountant; or
  - (b) Were neither audited nor reviewed,the entity's auditor shall communicate such matters in the auditor's interim review report. (Ref: Para. A34)
29. If the auditor expands the auditor's interim review report to include information and explanations not intended as a modified conclusion, the additional information and explanations shall follow the negative assurance paragraph. (Ref: Para. A34)

### **Additional Communication Responsibilities**

30. If management has indicated its intention to:
  - (a) Include reference in a public document containing the interim financial statements to the auditor having reviewed the interim financial statements; or
  - (b) Issue interim financial statements on which the entity's auditor has expressed a modified conclusion in the auditor's interim review report (except when such modification relates to a departure from the applicable financial reporting framework that is a result of an exemption permitted by securities regulations),the auditor shall advise management that the auditor's written interim review report must accompany the interim financial statements.

31. If management will not agree to the auditor's interim review report accompanying the interim financial statements, the auditor shall inform the audit committee or board of directors of management's refusal. If the matter is not resolved to the auditor's satisfaction, the auditor shall:
  - (a) Notify the audit committee or board of directors that the auditor does not consent to the use of the auditor's name in connection with the interim financial statements and, if applicable, the public document containing the interim financial statements; and
  - (b) Consider whether to resign from the interim review engagement. (Ref: Para. A36)
32. If the auditor becomes aware that the interim financial statements or a public document containing interim financial statements were released without the auditor's interim review report in the circumstances contemplated in paragraph 30, the auditor shall take actions to resolve the matter. (Ref: Para. A35-A36)
33. If an entity represents in a public document that the auditor has reviewed the interim financial statements included in the document when the auditor has not completed the interim review, the auditor shall:
  - (a) Inform the audit committee or board of directors that the auditor has not performed an interim review within the scope of this Section;
  - (b) Notify the audit committee or board of directors that he or she does not consent to the use of the auditor's name in the public document; and
  - (c) Consider whether to resign from the engagement. (Ref: Para. A36)

#### **Subsequent Discovery of a Possible Material Misstatement**

34. If, after issuing the auditor's interim review report, the auditor becomes aware of a possible material misstatement in the interim financial statements that might have affected the auditor's interim review report had the auditor known about it, the auditor shall take appropriate actions to resolve the matter. (Ref: Para. A37-A38)
35. When interim financial statements that were reported on in writing are revised because of a material misstatement, the auditor's interim review report on the revised statements shall be clearly differentiated from the original report. (Ref: Para. A39)

#### **Documentation**

36. The auditor shall document matters that in his or her professional judgment are important to support the auditor's interim review report. (Ref: Para. A40)
37. The documentation shall include, at a minimum:
  - (a) Any findings or issues that, in the auditor's judgment, are significant;
  - (b) Sufficient details to enable members of the engagement team with supervision and review responsibilities to understand the nature, timing and extent of the interim review procedures and results of performing those procedures;
  - (c) The identity of the engagement team members who performed and reviewed the work; and
  - (d) Communication with the audit committee, regardless of whether the communication was made in writing or orally. (Ref: Para. A41-A42)

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## Application and Other Explanatory Material

### Scope of this Section (Ref: Para. 1)

- A1. The term "auditor" is used in this Section because the scope of the Section is limited to circumstances when the auditor of the entity is engaged to perform an interim review of the entity's interim financial statements. However, the auditor is not performing an audit of those interim financial statements.
- A2. The term "audit committee" is used in this Section because, in most cases, this is the party to which the auditor is providing assistance. However, on occasion, the auditor may be engaged by the board of directors or by another body within the entity that has responsibility for the interim financial statements.
- A3. [Proposed] CSRE 2400<sup>1</sup> deals with a review of historical financial statements by a public accountant who is not the auditor of the entity's financial statements.
- A4. Section 7150<sup>2</sup> deals with additional considerations when the auditor consents to the use of the auditor's interim review report on interim financial statements included, or incorporated by reference, in a securities offering document. Section 7200<sup>3</sup> provides guidance on the auditor's involvement with interim financial statements in a comfort letter to underwriters or others.
- A5. An auditor may be engaged to perform procedures on interim financial statements that constitute less than the interim review contemplated by this Section. In such circumstances, the auditor would need to consider the professional responsibilities that arise from the auditor's association with the interim financial statements, and appropriately communicate the nature and extent of the auditor's involvement with the interim financial statements as set out in Section 5020.<sup>4</sup>

### Objective (Ref: Para. 4)

- A6. The objective of a review of interim financial statements differs significantly from the objective of an audit of financial statements in accordance with generally accepted auditing standards. The objective of an audit is to enable the auditor to express an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. An interim review does not provide a basis for the expression of such an opinion.
- A7. An interim review performed by the auditor in accordance with this Section also differs in several essential respects from a review of historical financial statements performed by a public accountant in accordance with [proposed] CSRE 2400.
  - (a) The purpose of the auditor's interim review is to assist the entity's audit committee in discharging its responsibilities for the review of the interim statements. The auditor's interim review report is a special purpose report provided only to the audit committee and may be

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<sup>1</sup> [Proposed] CSRE 2400, *Engagements to Review Historical Financial Statements*

<sup>2</sup> AUDITOR'S CONSENT TO THE USE OF A REPORT OF THE AUDITOR INCLUDED IN AN OFFERING DOCUMENT, Section 7150

<sup>3</sup> AUDITOR ASSISTANCE TO UNDERWRITERS AND OTHERS, Section 7200

<sup>4</sup> ASSOCIATION, Section 5020.

delivered either in written or oral form. This is in contrast to the public accountant's review engagement report under [proposed] CSRE 2400, which (unless the public accountant chooses otherwise) is normally unrestricted and must be provided in writing. (For the forms of auditor's interim review report appropriate for various circumstances, see paragraph A30.)

- (b) Through performing the audit of the entity's annual financial statements, the auditor possesses (or must obtain) an understanding of the entity and its environment, including internal control, which the auditor updates through inquiries made in the course of the interim review. As well, when the auditor is engaged to review the interim financial statements, the frequency of the reviews enables the auditor to update the auditor's understanding of the entity and its environment on a continuing basis. A public accountant who is not the auditor of the entity does not normally have the same breadth and depth of understanding of the entity and its environment, including internal control. That public accountant might often carry out more or different inquiries, and other procedures, in performing a review in accordance with [proposed] CSRE 2400 than might be required in an interim review.
- (c) Regulatory deadlines for filing interim financial statements often require the auditor to obtain a basis to conclude on the interim financial statements within a much tighter timeframe than is often the case for reviews of historical financial statements under [proposed] CSRE 2400.

#### **Agreeing the Terms of Engagement** (Ref: Para. 5)

- A8. The auditor may become aware of potential scope limitations to the interim review when conducting the audit engagement. Limitations might be imposed either by the audit committee or by circumstances such as deficiencies in internal control so significant that it would be impracticable to effectively perform procedures. In these circumstances, the auditor might consider accepting another type of engagement, such as performing specified procedures and reporting on the results.<sup>5</sup> However, it would not be appropriate for the auditor to accept another type of engagement if the auditor believes the result would be association with financial statements that would be considered false or misleading.
- A9. The form and content of the engagement letter may vary for each engagement. For example, in complying with paragraph 5, the engagement letter may make reference to the following matters:

##### *Objectives and scope of the engagement*

- The purpose of the interim review is to assist the audit committee in discharging its responsibilities with respect to the interim financial statements.
- The interim review will be performed in accordance with Canadian generally accepted standards for a review of interim financial statements by the entity's auditor. The interim review consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It does not normally contemplate verification of information obtained.

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<sup>5</sup> See REPORTS ON THE RESULTS OF APPLYING SPECIFIED AUDITING PROCEDURES TO FINANCIAL INFORMATION OTHER THAN FINANCIAL STATEMENTS, Section 9100.

- The scope of an interim review is substantially less than the scope of an audit performed in accordance with generally accepted auditing standards, the objective of which is to express an opinion regarding the financial statements and, accordingly, no such opinion is expressed.
- An interim review does not provide assurance that the auditor would become aware of any or all significant matters that might be identified in an audit.
- An interim review is not designed to provide assurance on internal control or on matters not directly related to the interim financial statements; however, the auditor is responsible for reporting to the audit committee significant weaknesses in internal control of which the auditor becomes aware in the course of the review.

#### *Responsibilities of management and the audit committee*

- Management is responsible for:
  - Establishing and maintaining effective internal control over financial reporting;
  - Identifying and ensuring that the entity complies with governing laws and regulations;
  - Preparing the interim financial statements in accordance with the applicable financial reporting framework;
  - Making all financial records and related information available to the auditor, including the interim Management Discussion and Analysis;
  - At the conclusion of the engagement, undertaking to provide the auditor with a letter confirming certain representations made during the interim review; and
  - Adjusting the interim financial statements to correct material misstatements;
- The audit committee is responsible for conducting its own review of the interim financial statements. For this purpose, it should not rely solely on the auditor's interim review report.

#### *The expected auditor's interim review report*

- Whether the auditor's interim review report will be delivered orally or in writing.
- If the auditor's interim review report is to be made in writing, the anticipated form and content of the auditor's interim review report to be issued.

#### *Other matters*

- The timing of the interim review.
- The fact that the auditor will not agree to provide a written consent to the inclusion of the interim review report in a public document, unless the written consent is required, pursuant to securities legislation, to the use of the interim review report on financial statements included in a prospectus (see paragraph 24).
- If unforeseen circumstances prevent the auditor from completing the interim review, the auditor will promptly inform the audit committee of this fact and discuss the consequences of it.

An example of an engagement letter for an interim review engagement is set out in Appendix 1 to this Section.



## **Communication with the Audit Committee (Ref: Para. 6)**

A10. The auditor may wish to refer to CAS 260<sup>6</sup> for guidance on matters to communicate to the audit committee. When communicating with the audit committee, the auditor may wish to clarify that the objective of, and the procedures undertaken in, an interim review engagement differ significantly from an audit engagement. Consequently, it is unlikely that the auditor will become aware of all matters to communicate to the audit committee that the auditor would have identified in an audit engagement.

## **Performing the Engagement**

### *Materiality (Ref: Para. 7)*

- A11. The auditor may find it useful to obtain an understanding of the views and expectations of the audit committee in assisting the auditor to determine materiality.
- A12. In addition to determining materiality for the interim financial statements as a whole, the auditor may choose to 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 clearly would not have a material effect on the interim financial statements.

### *Understanding the Entity and Its Environment, Including Its Internal Control (Ref: Para. 9)*

#### **Auditor Who Has Audited the Entity's Most Recent Annual Financial Statements**

A13. An auditor who has audited the entity's annual financial statements for one or more years would have obtained a sufficient understanding of internal control as it relates to the preparation of those statements. However, the auditor may not have obtained a sufficient understanding with respect to the preparation of interim financial statements. Internal control over the preparation of interim financial statements may be different from internal control over the preparation of annual financial statements because certain accounting principles and practices used for interim financial statements differ from those used for annual financial statements. For example, the entity's cut-off procedures at the end of an interim period may be substantially different from the procedures followed at year end. An auditor who has audited the entity's most recent annual financial statements may comply with paragraph 9 by updating his or her understanding of the entity and its environment, including internal controls, as it relates to the preparation of both annual and interim financial statements, through inquiry of officials responsible for financial and accounting matters.

#### **Auditor Who Has Not Audited the Entity's Most Recent Annual Financial Statements**

A14. The auditor performing the interim review engagement may not have audited the entity's most recent annual financial statements, or otherwise previously obtained a sufficient understanding of the entity and its environment, including internal controls, as it relates to the preparation of both annual and interim financial statements. In this case, paragraph 9 requires the auditor to perform procedures to obtain such an understanding. The auditor may find the guidance in CAS 315<sup>7</sup> useful in considering the procedures to perform in obtaining an understanding of the entity and its environment.

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<sup>6</sup> CAS 260, *Communication with Those Charged with Governance*

<sup>7</sup> CAS 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*

## Inability to Complete the Interim Review

- A15. When obtaining an understanding of the entity and its environment, including internal controls, the auditor may become aware of deficiencies in the entity's internal controls that are so significant that it would be impracticable for the auditor to effectively perform review procedures that would provide the auditor with a basis for an interim review report. In this case, the auditor may be precluded from completing the interim review. Paragraph 21 addresses the auditor's responsibilities when the interim review cannot be completed.

## *Designing and Performing Procedures (Ref: Para. 11)*

- A16. The characteristics of interim financial information necessarily affect the nature, timing and extent of procedures that the auditor applies in performing an interim review. Timely issuance of interim financial statements may preclude management from developing information and documentation underlying interim financial statements to the same extent as that underlying audited annual financial statements. In addition, the use of estimates (for example, of revenues, costs and expenses), is more common for interim than for annual reporting purposes. Another characteristic of interim financial information is its relationship to annual financial information. For example, estimates of income taxes, pension costs and other employee benefit costs may be influenced by judgments made at interim dates concerning the expected results of operations for the remainder of the fiscal year.
- A17. Generally, interim review procedures are limited to inquiries and analytical procedures, rather than verification of information obtained, concerning significant accounting matters relating to the interim financial statements. The auditor performs these procedures to obtain a basis for reporting whether the auditor is aware of any material modifications that need to be made for the interim financial statements to be in accordance with the applicable financial reporting framework. Specific inquiries made and analytical and other procedures performed would be tailored to the engagement based on the auditor's understanding of the entity and its environment, including internal control. 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 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, or both. An interim review does not normally contemplate the auditor performing certain procedures carried out during an audit, such as:

- Tests of accounting records through inspection, observation or confirmation.
- Tests of controls to evaluate their effectiveness.
- Verification of management's responses to the auditor's inquiries.

However, performing interim review procedures includes consideration of the reasonableness and consistency of management's responses in light of the results of other inquiries and review procedures and the auditor's understanding of the entity and its environment.

- A18. The procedures for a review of interim financial statements may be amended, as appropriate, to take into consideration the results of auditing procedures applied either in performing the audit for an earlier year or period, or as part of the audit for the current year. Certain audit procedures for the current year may be performed concurrently with the review of interim financial statements. For example, there may be significant or unusual transactions, such as business

combinations or significant revenue transactions, on which audit procedures may be performed at the time of the interim review.

- A19. Examples of procedures the auditor may consider performing in an interim review are set out in Appendix 2.
- A20. An interim review may bring to the attention of the auditor significant matters affecting the interim financial statements but it does not provide assurance that the auditor will become aware of any or all significant matters that might have been identified had the auditor performed an audit. Notwithstanding that an interim review is carried out in accordance with this Section, there is a greater risk that misstatements will not be detected in an interim review than in an audit.

#### Analytical Procedures

A21. In planning and performing analytical procedures:

- Expectations developed by the auditor in connection with an interim review may be less precise than those developed in an audit.
- The auditor may consider:
  - The effectiveness of the entity's internal control.
  - Matters that, in the preceding year or quarters, have required accounting adjustments.

For example, the auditor's previous evaluation of internal control may have resulted in a need for the auditor to apply extensive substantive testing in performing the annual audit.

Consequently, the auditor may perform more extensive and detailed analytical procedures in the course of the interim review.

#### Inquiries Relating to Litigation, Claims and Other Contingencies (Ref: Para. 12)

- A22. Because an interim review does not normally involve verification of information obtained, it is normally unnecessary to send an audit inquiry letter to the entity's lawyer concerning litigation, claims or other contingencies. However, if information comes to the attention of the entity's auditor that leads the auditor to question whether the interim financial statements depart from the applicable financial reporting framework insofar as litigation, claims or other contingencies may be concerned, and the auditor believes the entity's lawyer may have information concerning the matter, an inquiry of the lawyer concerning the specific matter may be appropriate.

#### *Procedures to Address Specific Circumstances*

##### Interim Management Discussion and Analysis (Ref: Para. 14)

- A23. Some securities legislation provides a right of action against the directors, officers and insiders of an entity and, in some circumstances, auditors and other experts, if a document with which they are associated contains a misrepresentation (as defined in legislative provisions). In the absence of such legislative provisions, comparable rights (and a definition of the term "misrepresentation") may be provided as a matter of contract. The term "misrepresentation" has different definitions under different securities acts. Generally, it refers to an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made. In this context, a "material fact" means a fact that would reasonably be expected to have a significant effect on the market price or value of the securities.

A24. The auditor may find the guidance in CAS 720<sup>8</sup> useful in considering actions to be taken when the auditor becomes aware of a material misstatement in the interim financial statements or a material misrepresentation in the interim Management Discussion and Analysis.

*Written Representations* (Ref: Para. 15)

A25. Paragraph 15 requires the auditor to obtain representations from management. The auditor may also wish to obtain representations from the audit committee on matters that the auditor considers appropriate. Appendix 3 illustrates a representation letter.

A26. Failure of management to provide the auditor with the written representations the auditor believes are necessary may preclude the auditor from completing the interim review. Paragraph 21 addresses the auditor's responsibilities when the interim review cannot be completed.

*Additional Procedures* (Ref: Para. 17)

A27. An example of a matter that represents a possible misstatement is the recording of a sales transaction that may not meet the revenue recognition criteria under the applicable financial reporting framework. In such a case, additional procedures that the auditor may perform to resolve the matter include reading the sales contract and making inquiries of senior marketing and accounting personnel regarding the terms of the transaction.

*Accumulation and Evaluation of Misstatements* (Ref: Para. 18)

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

- The nature, the cause (if known) and the amount of such misstatements.
- Whether the misstatements originated in a previous year or in interim periods of the current year.
- Materiality judgments made in conjunction with the current or previous years' annual audits.
- The potential effects of the misstatements on future interim and/or annual periods.
- The appropriateness of offsetting a misstatement of an estimated amount with a misstatement of an item susceptible to precise measurement.
- Recognition that an accumulation of immaterial misstatements in the balance sheet could contribute to material misstatements in future periods.

*Resolution of Matters* (Ref: Para. 19-21)

A29. Paragraph 19 requires the auditor to inform the audit committee of certain matters to which management has not responded appropriately within a reasonable period of time. The auditor may also consider informing the audit committee even when management has responded appropriately (for example, by correcting misstatements).

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<sup>8</sup> CAS 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

## **The Auditor's Interim Review Report**

### *Form and Content of the Auditor's Interim Review Report (Ref: Para. 22-23)*

- A30. When an auditor performs a review of interim financial statements, the auditor becomes associated with the statements. In most circumstances, it may be appropriate for the auditor to provide an oral auditor's interim review report to the audit committee. However, the auditor is required to issue a written auditor's interim review report and request that the written auditor's interim review report accompany the interim financial statements in the following circumstances:
- (a) When the auditor's interim review report contains a modified conclusion relating to a material departure from the applicable financial reporting framework, paragraph 27 requires the auditor to issue a written interim report expressing the modified conclusion to avoid being associated with false or misleading information.
  - (b) When the auditor's interim review is referred to in a public document, paragraph 30 requires the auditor to issue a written auditor's interim report to highlight the fact that the auditor's interim review report is solely for the use of the audit committee to assist it in discharging its responsibilities with respect to the interim financial statements, and not for any other purpose.
- A31. If the auditor's interim review report is delivered orally, the auditor may communicate the matters set out in paragraph 23 in a manner that is less structured and formal than would be used in a written report. For example, the matters in paragraphs 23(a) and (j) can be presumed, and need not be explicitly stated, when the auditor meets with the audit committee to discuss the interim financial statements.
- A32. Members of audit committees are likely to be knowledgeable about financial reporting and are in a position to determine the nature and extent of the assistance they need from the auditor. In addition, they can question the auditor about the interim review procedures carried out, and the results of those procedures, to gain a better understanding of the work the auditor has performed. As a result, they will become aware of the limitations of an interim review and the lower level of assurance provided by such a review as compared to that provided by an audit. As well, they are able to make additional inquiries and carry out other procedures in discharging their responsibilities with respect to the interim financial statements. On the other hand, investors and investment analysts may not always be familiar with the limited level of assurance provided by an interim review. Also, they are not in a position to influence the work an auditor carries out in performing an interim review, or to discuss the review procedures and the results with the auditor. Therefore, paragraph 23(h) requires the auditor to restrict the interim review report to use by the audit committee in conducting its review of the interim financial statements. The auditor may also consider it appropriate to restrict distribution of the auditor's interim review report. Appendix 4 provides illustrations of the auditor's interim review reports.

### *Written Consent to the Inclusion of the Auditor's Interim Review Report in a Public Document (Ref: Para. 24)*

- A33. Securities legislation sometimes requires the auditor to provide a written consent to securities regulators for inclusion in an offering document of the auditor's report on audited financial statements. Such a consent establishes a statutory defence (a "due diligence defence") for directors, officers and, in some cases, underwriters that, in the event that the financial statements

contain a misrepresentation, they relied on the report of an expert. An entity that includes an auditor's interim review report in a public document may ask its auditor to provide a written consent to the inclusion of the auditor's interim review report in such a document. However, an interim review does not result in the auditor expressing an opinion on the interim financial statements. Consequently, it may be inappropriate for directors, officers and others to rely on the auditor's interim review report as the report of an expert in the discharge of their responsibilities. Therefore, paragraph 24 prohibits the auditor from providing a written consent to the inclusion of the interim review report in a public document unless the written consent is required, pursuant to securities legislation, to the use of the interim review report on financial statements included in a prospectus.

*Comparative Figures and Other Additional Information (Ref: Para. 28-29)*

A34. Comparative information included in the current period interim financial statements may be derived from interim financial statements of a prior interim period or the most recent annual financial statements. When:

- (a) The auditor's interim review report on a prior interim period, as previously issued, included a modified conclusion; or
- (b) The auditor's report on the most recent annual financial statements, as previously issued, included a modified opinion,

it may be appropriate to make reference to the modified conclusion or modified opinion in the auditor's interim review report for the current period. However, such a reference would not normally be appropriate when the matter giving rise to the modified conclusion or modified opinion has been settled subsequently and does not appear to impair the comparability of the current and comparative figures. If the matter resulting in the modified conclusion or opinion still exists and affects the interim financial statements for the current period, it would be dealt with as outlined in paragraphs 25-27.

**Additional Communication Responsibilities (Ref: Para. 30-33)**

A35. Actions to resolve the matter contemplated in paragraph 32 may include, for example, requesting the entity to reissue the interim financial statements and, if applicable, the public document containing the interim financial statements, together with the auditor's interim review report.

A36. The auditor may wish to seek legal advice concerning the legal implications of taking the actions set out in paragraphs 20 and 31-33.

**Subsequent Discovery of a Possible Material Misstatement (Ref: Para. 34-35)**

A37. Appropriate actions to resolve a subsequent discovery of a possible material misstatement may include:

- Performing additional procedures to determine whether the possible material misstatement is in fact a material misstatement.
- Discussing the matter with management.
- Informing the audit committee.

- If applicable, including an additional paragraph in the auditor's interim review report to differentiate the new interim review report from the original report as required in paragraph 35.
- Seeking legal advice as to the action to be taken to discharge the auditor's responsibilities.

A38. Where law, regulation or the financial reporting framework does not:

- (a) Prohibit management from restricting the amendment of the interim financial statements to the effects of the subsequent event or events causing that amendment; and
- (b) Those responsible for approving the financial statements are not prohibited from restricting their approval to that amendment,

the auditor may restrict the procedures on subsequent events required in paragraph 34 to that amendment.

A39. The revised auditor's interim review report may be differentiated from the previous report by stating, in a separate paragraph following the negative assurance paragraph, that "the previous report dated [specify date] has been withdrawn and that the interim financial statements have been revised." This paragraph may also include either an explanation of the revision or a cross-reference to a note to the revised interim financial statements explaining the revision.

**Documentation** (Ref: Para. 36-37)

A40. The form, content and extent of the documentation may be designed to meet the circumstances of the particular engagement. Documentation is the principal record of the interim review procedures performed, the information obtained and the conclusions reached by the auditor. Because of different circumstances in individual engagements, it is not possible to specify the form and content of the documentation.

A41. Findings or issues that the auditor may consider to be significant for documentation include, for example, the results of interim review procedures that indicate that the interim financial statements could be materially misstated, actions taken to address such findings and the basis for the final conclusions reached.

A42. If communication with the audit committee is made orally, the communication may be documented in appropriate memoranda or notations in the working papers.

## Appendix 1

(Ref: Para. A9)

### **Example of an Interim Review Engagement Letter**

The following is an example of an engagement letter for an interim review of interim financial statements. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this Section. It will need to be varied according to individual requirements and circumstances. It is drafted to refer to the issuance of a written interim review report and would require adaptation if a verbal interim review report is intended or expected (see paragraph 23). It may be appropriate to seek legal advice that any proposed letter is suitable.

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To the Management and the Audit Committee of ABC Company:

#### *[The objective and scope of the interim review]*

You have requested that we review the interim financial statements of ABC Company, which comprise the interim statement of financial position as at June 30, 20X2 and the interim statement of comprehensive income for the three-month and six-month periods ended June 30, 20X2 and 20X1, and the statements of changes in equity and cash flows for the six-month period then ended. Our review will not extend to the comparative statement of financial position as at December 31, 20X1 and the comparative statement of comprehensive income for the three-month and six-month periods ended June 30, 20X1, and the statements of changes in equity and cash flows for the six-month period then ended.

#### *[The responsibilities of the auditor]*

We will conduct our interim review for the purpose of assisting the Audit Committee in discharging its responsibilities with respect to the interim financial statements. Our review will be conducted with the objective of providing us with a basis for reporting whether we are aware of any material modification that needs to be made for such statements to be in accordance with the [applicable financial reporting framework]. Such an interim review consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters, and does not normally contemplate verification by us of information obtained.

The scope of an interim review is substantially less than the scope of an audit performed in accordance with generally accepted auditing standards, whose objective is the expression of an opinion regarding the financial statements and, accordingly, we shall express no such opinion.

An interim review does not provide assurance that we will become aware of any or all significant matters that might be identified in an audit. Such a review is not designed to provide assurance on internal control, or to identify and report to the Audit Committee regarding any matters that come to our attention, other than matters directly related to the interim financial statements. However, we will report to the Audit Committee any significant weaknesses in internal control of which we may become aware in the course of our review.



Should unforeseen circumstances prevent us from completing the interim review, we will promptly inform the Audit Committee of this fact and discuss the consequences of it.

*[The responsibilities of management and the audit committee]*

You have agreed that management of the company is responsible for:

- (a) Establishing and maintaining effective internal control over financial reporting;
- (b) Identifying and ensuring that the company complies with governing laws and regulations;
- (c) Preparing the interim financial statements in accordance with the [applicable financial reporting framework];
- (d) Making all financial records and related information available to us;
- (e) Providing us with the interim Management Discussion and Analysis;
- (f) Undertaking to provide us, at the conclusion of the engagement, with a letter confirming certain representations made during our interim review; and
- (g) Adjusting the interim financial statements to correct material misstatements. Although a review of interim financial statements is not designed to obtain reasonable assurance that the interim financial statements are free of material misstatement, management is responsible for affirming in its representation letter to us that the effects of any uncorrected misstatements that we identify during the engagement that pertain to the current periods under review are immaterial, both individually and in aggregate, to the interim financial statements.

Further, you have agreed that the Audit Committee is responsible for conducting its own review of the interim financial statements. For this purpose, you should not rely solely on our interim review report.

*[Other relevant information]*

Management has informed us that the interim financial statements are expected to be completed by [date], and we understand that the Audit Committee plans to meet on [date] to carry out its review. We shall plan to perform our review work during the week of [date], and we shall be available to attend the Audit Committee meeting and discuss the results of our review.

*[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]*

*[Reporting]*

In connection with the interim financial statements, you have agreed that:

- (a) We shall communicate the results of our review in writing to the Audit Committee; and
- (b) Our written interim review report will be included in all documents containing the interim financial statements if:
  - (i) Our review is referred to in any public document containing the interim financial statements; or
  - (ii) Our interim review report contains a modified conclusion relating to a departure from the [applicable financial reporting framework], unless the departure from the [applicable financial reporting framework] is a result of an exemption permitted by securities regulations.

*[Insert other matters relating to the expected form and content of the auditor's interim review report, as appropriate.]*

The form and content of our interim review report may need to be amended in light of our interim review findings.

Such a written interim review report will state that it is solely for the use of the Audit Committee to assist it in discharging its obligation to review the interim financial statements, and that it should not be used for any other purpose. We shall not, in any event, issue a written consent to the inclusion of our interim review report in a public document, unless the written consent is required, pursuant to securities legislation, to the use of our interim review report if the financial statements are included in a prospectus.

Please sign and return the attached copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our review of the interim financial statements, including our respective responsibilities.

XYZ & Co.

Acknowledged and agreed by Management and the Audit Committee of ABC Company:  
(signed)

.....

Name and Title

Date

## Appendix 2

(Ref: Para. A19)

### Examples of Interim Review Procedures

The following procedures are only examples and, accordingly, they may not be the most appropriate or necessary in each circumstance. Also, the order of the procedures provided is not intended to reflect their relative importance.

### Analytical Procedures the Auditor May Consider Performing in an Interim Review

- Comparing current interim financial statements with expected results, such as budgets or forecasts, taking into account the susceptibility of budgets, forecasts or other anticipated results to manipulation by management to reflect desired interim results and the inherent lack of precision in estimating the future. For example, comparing tax balances, and the relationship between the provision for income taxes and pretax income in the current interim financial statements with corresponding information in budgets (using expected rates) and financial information for prior periods.
- Comparing current interim financial information with relevant non-financial information.
- Comparing ratios and indicators for the current interim period with expectations based on prior periods. For example, performing gross profit analysis by product line and 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 with those of entities in the same industry.
- Comparing relationships among elements in the current interim financial statements with corresponding relationships in 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 with percentage of change in receivables).
- Comparing disaggregated data:
  - By period, such as financial statement 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.

## **Inquiries and Other Review Procedures that an Auditor May Perform**

- Inquiring about:
  - The effectiveness of internal control, including the control environment and control systems, for the preparation for both annual and interim financial statements.
  - Significant deficiencies, including material weaknesses, in the design or operation of internal control that could adversely affect the issuer's ability to record, process, summarize and report financial information.
  - Whether any significant changes in internal control, as it relates to the preparation of both annual and interim financial statements, have occurred since the most recent financial statement audit or review of interim financial statements (including changes in the entity's policies, procedures and personnel), as well as the nature and extent of such changes.
- Based on observation and inquiry, considering whether significant changes in internal control may have introduced significant deficiencies in the design of internal control.
- Reading the minutes of meetings of shareholders, the board of directors and committees of the board of directors to identify matters that may affect the interim financial statements.
- Obtaining evidence that the interim financial statements are in agreement with, or have been reconciled to, the accounting records. For example, the auditor may compare the interim financial statements to the accounting records, such as the general ledger, a consolidating schedule derived from the accounting records or other supporting data in the entity's records. In addition, the auditor would consider inquiring of management as to the reliability of the records to which the interim financial statements were compared or reconciled.
- Reading documentation of the preceding year's audit, and of reviews of prior interim period(s) of the current year and corresponding quarterly and year-to-date interim period(s) of the preceding year, to the extent necessary to enable the auditor to identify matters that may affect the current interim financial statements, taking into consideration of:
  - Any corrected material misstatements;
  - Matters identified in any summary of uncorrected misstatements;
  - The risks of material misstatement due to fraud, including the risk of management override of controls; and
  - Significant financial accounting and reporting matters that may be of continuing significance, such as weaknesses in internal control.
- Considering the results of any audit procedures performed with respect to the current year's financial statements.
- Obtaining reports from other auditors, if any, who have been engaged to perform a review of the interim financial statements of significant components of the reporting entity or of its subsidiaries, joint ventures or other investees or, if such reports have not been issued, making inquiries of the other auditors.

- Inquiring of officials having responsibility for financial and accounting matters about whether:
  - The interim financial statements are prepared in accordance with the applicable financial reporting framework.
  - The statements contain any known non-trivial errors.
  - The entity is in compliance with securities and other regulatory requirements, including new or changed pronouncements or other regulations.
  - The entity has received any communications from regulatory authorities.
- Inquiring of officials having responsibility for financial and accounting matters about:
  - Changes in the entity's accounting practices.
  - Significant changes in the entity's business activities.
  - Unusual or significant events and transactions occurring, and estimates made, during the interim period, and how such events, transactions and estimates have been reported in the interim financial statements.
  - Significant transactions occurring or recorded in the first several days and the last several days of the interim period, and in the first several days of the next interim period.
  - The status of uncorrected misstatements identified during the previous audit and interim review (i.e., whether adjustments had been recorded subsequent to the previous audit or interim review and, if so, the amounts recorded and the period in which such adjustments were recorded).
  - Management's knowledge of any actual, suspected or alleged fraud or illegal or possibly illegal acts affecting the entity that involve management, employees who have significant roles in internal control, or others where the fraud or illegal acts could have a material effect on the financial statements.
  - Significant journal entries and other adjustments.
  - Events subsequent to the date of the interim financial statements up to the date of the auditor's communication that would have a material effect on such statements.

#### **Events and Transactions about Which the Auditor May Inquire of Management**

- Business combinations.
- Disposal of a segment of a business.
- Impairment of assets.
- Restructurings.
- Application of new accounting principles.
- Application of new or complex revenue recognition methods.
- Other changes in accounting principles or the methods of applying them.
- Use of derivative instruments and hedging activities.
- Computation of earnings per share in a complex capital structure.

- Adoption of new stock compensation plans or changes to existing plans.
- Changes in litigation, or contingencies including guarantees or indemnities.
- Changes in major contracts with customers or suppliers.
- 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.
- Issuance of debt or capital stock with unusual terms that could affect balance sheet or income statement classification.
- Other significant, unusual or infrequently occurring transactions.
- Events subsequent to the date of the interim financial statements, up to the date of the auditor's communication, that could have a material effect on such statements.

## Appendix 3

(Ref: Para. A25)

### Examples of Representation Letters

**Example 1** – This example illustrates the form of representation letter for an interim review that might be used in conjunction with a representation letter provided by management relating to the audit of the prior year's financial statements. Management confirms the representations made in the previous representation letter as they apply to the interim financial statements, and makes additional representations applicable to the interim financial statements.

[Entity Letterhead]

(To Auditor)

[Date]

This representation letter is provided in connection with your interim review of the [identify interim financial statements] of [name of entity] as at [dates] and for the [periods], for the purpose of determining whether any material modification should be made to the interim financial statements for them to be in accordance with the [applicable financial reporting framework]. We confirm that we are responsible for the preparation of the interim financial statements in accordance with the [applicable financial reporting framework].

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):

#### *Financial Statements*

- The interim financial statements referred to above are prepared in accordance with the [applicable financial reporting framework].
- We have fulfilled our responsibilities, as set out in the terms of engagement dated [Date], for the preparation of the interim financial statements in accordance with the [applicable financial reporting framework].
- The effects of any uncorrected financial statement misstatements identified and aggregated by you relative to the interim period(s) in the current year, as summarized in the accompanying schedule, are immaterial, both individually and in the aggregate, to the interim financial statements.
- [Any other matters that the auditor may consider necessary.]

#### *Internal Controls*

- We acknowledge our responsibility for establishing and maintaining effective internal control over financial reporting.
- We have disclosed to you all known deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that we believe to be significant deficiencies or material weaknesses in internal control over financial reporting.
- [Any other matters that the auditor may consider necessary.]

### *Information Provided*

- We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the interim financial statements, such as records and documentation;
  - Additional information that you have requested from us for the purpose of the interim review;
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain evidence;
  - All financial records; and
  - All minutes of the meetings of shareholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared. All significant board and committee actions are included in the summaries.
- We have disclosed to you all information in relation to fraud or suspected fraud of which we are aware and that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's interim financial statements communicated by employees, former employees, analysts, regulators or others.
- 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 the interim financial statements.
- [Any other matters that the auditor may consider necessary.]

### *Other Matters*

- We have reviewed our representation letter to you dated [date of representation letter relating to most recent audit] with respect to the audited financial statements for the year ended [date]. We believe that representations [A, B and C] within that representation letter do not apply to the interim financial statements referred to above. We now confirm those representations [D to P inclusive] as they apply to the interim financial statements referred to above, and incorporate them herein, with the following changes: [indicate any changes].
- To the best of our knowledge and belief, no events have occurred subsequent to the date of the statement of financial position and up to the date of this letter that would require adjustment to or disclosure in the aforementioned interim financial statements.
- [Any other matters that the auditor may consider necessary.]

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Management (and, where appropriate, the Audit Committee)



**Example 2** – This example illustrates the form of representation letter for an interim review that could be used independently of any other representation letter. It is similar in detail to a management representation letter that might be provided by management relating to the audit of the prior year's financial statements and thus, need not refer to the written management representations received in the most recent audit.

[Entity Letterhead]

(To Auditor)

[Date]

This representation letter is provided in connection with your interim review of the [identification of interim financial statements] of [name of entity] as at [dates] and for the [periods], for the purpose of determining whether any material modification should be made to the interim financial statements for them to be in accordance with the [applicable financial reporting framework]. We confirm that we are responsible for the preparation of the interim financial statements in accordance with the [applicable financial reporting framework].

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):

*Financial Statements*

- The interim financial statements referred to above are prepared in accordance with the [applicable financial reporting framework].
- We have fulfilled our responsibilities, as set out in the terms of engagement dated [Date], for the preparation of the interim financial statements in accordance with the [applicable financial reporting framework].
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the [applicable financial reporting framework].
- The effects of any uncorrected financial statement misstatements aggregated by you during the current review engagement relative to the interim period(s) in the current year, as summarized in the accompanying schedule, are immaterial, both individually and in the aggregate, to the interim financial statements.
- [Any other matters that the auditor may consider necessary.]

*Internal Controls*

- We acknowledge our responsibility for establishing and maintaining effective internal control over financial reporting.
- We have disclosed to you all known deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that we believe to be significant deficiencies or material weaknesses in internal control over financial reporting.
- [Any other matters that the auditor may consider necessary.]

### *Information Provided*

- We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the interim financial statements, such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the review;
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain evidence;
  - All financial records; and
  - All minutes of the meetings of shareholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared. All significant board and committee actions are included in the summaries.
- All transactions have been recorded in the accounting records and are reflected in the interim financial statements.
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's interim financial statements communicated by employees, former employees, analysts, regulators or others.
- 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 the interim financial statements.
- We have disclosed to you all communications from regulatory agencies concerning non-compliance with or deficiencies in financial reporting practices.
- 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.]

### *Other Matters*

- To the best of our knowledge and belief, no events have occurred subsequent to the date of the statement of financial position and up to the date of this letter that would require adjustment to or disclosure in the aforementioned interim financial statements.
- [Any other matters that the auditor may consider necessary.]

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Management (and, where appropriate, the Audit Committee)

## Appendix 4

(Ref: Para. A32)

### Illustrations of Auditor's Interim Review Reports

- Illustration 1: An auditor's interim review report when the auditor is engaged to report on a review of the current period interim financial statements.
- Illustration 2: An auditor's interim review report when the auditor is engaged to report on a review of comparative interim financial statements.

#### Illustration 1:

[Letterhead of entity's auditor]

[Date]

[Addressee — normally the audit committee]

Dear Sirs / Mesdames:

In accordance with our engagement letter dated ....., we have performed an interim review of the statement of financial position of ..... as at June 30, 20X2, the statement of comprehensive income for the three-month and six-month periods ended June 30, 20X2, and the statements of changes in equity and cash flows for the six-month period then ended. These financial statements are the responsibility of [the entity's] management.

We performed our interim review in accordance with Canadian generally accepted standards for a review of interim financial statements by an entity's auditor. Such an interim review consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. An interim review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements. Accordingly, we do not express such an opinion. An interim review does not provide assurance that we would become aware of any or all significant matters that might be identified in an audit.

Based on our interim review, we are not aware of any material modification that needs to be made for these interim financial statements to be in accordance with the [applicable financial reporting framework].

This report is solely for the use of the Audit Committee of ..... to assist it in discharging its regulatory obligation to review these financial statements, and should not be used for any other purpose.

[Auditor's signature]

## Illustration 2:

[Letterhead of entity's auditor]

[Date]

[Addressee — normally the audit committee]

Dear Sirs / Mesdames:

In accordance with our engagement letter dated ....., we have performed interim reviews of the statement of financial position of ..... as at June 30, 20X2, the statement of comprehensive income for the three-month and six-month periods ended June 30, 20X2 and 20X1, and the statements of changes in equity and cash flows for the six-month period then ended. These financial statements are the responsibility of [the entity's] management.

We performed our interim reviews in accordance with Canadian generally accepted standards for a review of interim financial statements by an entity's auditor. Such an interim review consists principally of applying analytical procedures to financial data, and making enquiries of persons responsible for financial and accounting matters. An interim review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements. Accordingly, we do not express such an opinion. An interim review does not provide assurance that we would become aware of any or all significant matters that might be identified in an audit.

Based on our interim reviews, we are not aware of any material modification that needs to be made for these interim financial statements to be in accordance with the [applicable financial reporting framework].

We have previously audited, in accordance with Canadian generally accepted auditing standards, the statement of financial position of ..... as at December 31, 20X1, and the related statements of comprehensive income, changes in equity and cash flows for the year then ended (not presented herein). In our report dated February 15, 20X2, we expressed an unmodified audit opinion on those financial statements. In our opinion, the information set forth in the accompanying [condensed] statement of financial position as at December 31, 20X1, is fairly stated, in all material respects, in relation to the financial statements from which it has been derived.<sup>1</sup>

This report is solely for the use of the Audit Committee of ..... to assist it in discharging its regulatory obligation to review these financial statements, and should not be used for any other purpose.

[Auditor's signature]

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<sup>1</sup> This paragraph may not be appropriate if, for example, the accounting policies in the interim financial statements are different from those of the audited financial statements, there was a modified audit opinion on the audited financial statements or there were restatements to the audited financial statements.