

1-1-2008

Proposed statement on auditing standards: interim financial information (amends AU section 722, interim financial information); Exposure draft (American Institute of Certified Public Accountants), 2008, September 2

American Institute of Certified Public Accountants. Auditing Standards Board

Follow this and additional works at: [https://egrove.olemiss.edu/aicpa\\_sop](https://egrove.olemiss.edu/aicpa_sop)

 Part of the [Accounting Commons](#), and the [Taxation Commons](#)

### Recommended Citation

American Institute of Certified Public Accountants. Auditing Standards Board, "Proposed statement on auditing standards: interim financial information (amends AU section 722, interim financial information); Exposure draft (American Institute of Certified Public Accountants), 2008, September 2" (2008). *Statements of Position*. 681.  
[https://egrove.olemiss.edu/aicpa\\_sop/681](https://egrove.olemiss.edu/aicpa_sop/681)

This Book is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in Statements of Position by an authorized administrator of eGrove. For more information, please contact [egrove@olemiss.edu](mailto:egrove@olemiss.edu).

---

**EXPOSURE DRAFT**

---

**PROPOSED STATEMENT ON AUDITING STANDARDS**

***INTERIM FINANCIAL INFORMATION***

**(AMENDS AU SECTION 722, *INTERIM FINANCIAL  
INFORMATION*)**

**SEPTEMBER 2, 2008**

Prepared by the AICPA Auditing Standards Board for comment from persons  
interested in auditing and reporting issues

Comments should be sent by electronic mail to Mike Glynn at  
[mglynn@aicpa.org](mailto:mglynn@aicpa.org) and received by November 3, 2008.

*Copyright © 2008 by*

*American Institute of Certified Public Accountants, Inc.*

*Permission is granted to make copies of this work provided that such copies are for personal, intraorganizational, or educational use only and are not sold or disseminated and provided further that each copy bears the following credit line: "Copyright © 2008 by American Institute of Certified Public Accountants, Inc. Used with permission."*

September 2, 2008

Accompanying this letter is an exposure draft, approved by the Auditing Standards Board (ASB), of a proposed Statement on Auditing Standards (SAS) entitled *Interim Financial Information*.

A summary of the significant provisions of the proposed SAS follows this letter. The proposed statement is being issued to amend AU section 722, *Interim Financial Information* (AICPA, *Professional Standards*, vol. 1), to accommodate reviews of interim financial information of nonissuers, including companies offering securities pursuant to the Securities and Exchange Commission Rule 144A or participating in private equity exchanges. For example, a nonissuer may, on a quarterly basis, prepare interim financial statements that conform with the requirements of Article 10 of SEC Regulation S-X. This statement would apply when the interim financial information is intended to provide a periodic update to year-end reporting and the accountant has either (a) audited the entity's latest annual financial statements or (b) is auditing the current year financial statements and the entity's latest annual financial statements were audited by another auditor. This statement also clarifies that if these conditions are not met, reviews of interim financial information of nonissuers should be performed in accordance with Statements on Standards for Accounting and Review Services. The proposed statement also removes the guidance for reviews of the interim financial information of issuers since such guidance appropriately resides in the auditing standards of the Public Company Accounting Oversight Board.

Comments or suggestions on any aspect of this exposure draft are appreciated. To facilitate the ASB's consideration of responses, comments should refer to specific paragraphs and include supporting reasons for each suggestion or comment.

Written comments on the exposure draft will become part of the public record of the AICPA and will be made available for public inspection at the offices of the AICPA, after December 3, 2008, for one year. Comments should be sent via the Internet to Mike Glynn at [mglynn@aicpa.org](mailto:mglynn@aicpa.org) and received no later than November 3, 2008.

Sincerely,

Harold L. Monk, Jr.  
*Chair*  
*Auditing Standard Board*

Charles E. Landes  
*Vice President*  
*Professional Standards*

**Auditing Standards Board  
(2007–2008)**

Harold L. Monk, Jr., *Chair*  
Sheila M. Birch  
Jacob J. Cohen  
Walton T. Conn, Jr.  
Anthony Costantini  
Robert D. Dohrer  
Charles E. Frasier  
Nicholas J. Mastracchio  
Jorge Milo  
Andrew M. Mintzer

Keith O. Newton  
Patricia P. Piteo  
Douglas F. Prawitt  
Randy C. Roberts  
Darrel R. Schubert  
Thomas M. Stemplar  
Stephanie A. Westington  
Arthur M. Winstead, Jr.  
Megan F. Zietsman

**Interim Reviews Task Force**

Jorge Milo, *Chair*, assisted by  
    Brian T. Croteau  
Cassandra Camp  
Walton T. Conn, Jr.

George P. Fritz  
Martin C. Levin  
Beth Schneider

**AICPA Staff**

Charles E. Landes  
*Vice President*  
*Professional Standards*

Michael P. Glynn  
*Technical Manager*  
*Audit and Attest Standards*

## SUMMARY

### WHY ISSUED AND WHAT IT DOES

This proposed Statement on Auditing Standards (SAS) is being issued to amend AU section 722, *Interim Financial Information* (AICPA, *Professional Standards*, vol. 1), to accommodate reviews of interim financial information of nonissuers,<sup>1</sup> including companies offering securities pursuant to Securities and Exchange Commission (SEC) Rule 144A or participating in private equity exchanges. For example, a nonissuer may, on a quarterly basis, prepare interim financial statements that conform with the requirements of Article 10 of SEC Regulation S-X. This statement would apply when the interim financial information is intended to provide a periodic update to year-end reporting and the accountant has either (a) audited the entity's latest annual financial statements or (b) is auditing the current year financial statements and the entity's latest annual financial statements were audited by another auditor. This statement also clarifies that if these conditions are not met, reviews of interim financial information of nonissuers should be performed in accordance with Statements on Standards for Accounting and Review Services. The proposed SAS also removes the guidance for reviews of the interim financial information of issuers since such guidance appropriately resides in the auditing standards of the Public Company Accounting Oversight Board.

### Background

Many nonissuers prepare quarterly financial information in a manner similar to public companies based on contractual, indenture, or other third-party requirements. Private equity exchanges, for example, may require listed companies to prepare interim condensed financial information that is "substantially similar" to the information that an issuer includes in a quarterly report on Form 10-Q and also expect the listed companies to have the interim financial statements reviewed by an independent accountant. Independent accountants may also be requested to perform a review of interim financial information for a nonissuer in other situations, including (a) an exempt offering (including Rule 144A offerings) that includes interim financial information or (b) a review of interim financial information prepared in accordance with the provisions of an indenture agreement.

Currently, AU section 722 does not apply to reviews of financial information of nonpublic entities (see the discussion under "Applicable Interim Review Guidance" that follows).

### Background on Private Equity Exchanges<sup>2</sup>

---

<sup>1</sup> *Nonissuers* are all entities except for those defined as issuers. An *issuer* is defined in section 3 of the Securities Exchange Act of 1934 [15 U.S.C. 78c], the securities of which are registered under section 12 of that Act (15 U.S.C. 78l), or that is required to file reports under section 15(d) (15 U.S.C. 78o(d)), or that files or has filed a registration statement that has not yet become effective under the Securities Act of 1933 (15 U.S.C. 77a et seq.), and that it has not withdrawn.

<sup>2</sup> The rules and regulations of the exchanges continue to evolve as the exchanges mature. This document briefly outlines the theoretical operation of the exchanges; however, it should be noted that the rules and regulations vary by exchange.

A number of electronic trading platforms (or private equity exchanges) have been established to facilitate trading of unregistered private equity securities. These private equity exchanges are designed to allow companies to take advantage of the Rule 144A exemption, which allows for resale of a private placement offering among qualified institutional buyers (QIBs) without requiring registration of the securities with the SEC or compliance with SEC reporting requirements.

Generally, in order to participate in an exchange, a QIB must enter into an agreement to comply with the rules of the exchange and represent that they are a *qualified institutional buyer* as defined in Rule 144A and a *qualified purchaser*, as defined in Sections 2(a) 51 and 3(c)(7) of the Investment Company Act.

Companies listed on private exchanges may be required to provide financial and other information to the qualified investors on the exchange's Web site. The on-going reporting requirements may resemble requirements for a Securities Exchange Act of 1934 filing. In general, companies may be required to report annual and quarterly financial information that is "substantially similar" to the information reported by issuers in annual reports on Form 10-K and quarterly reports on Form 10-Q, respectively. The annual financial statements included in the Form 10-K like document are audited by independent auditors.

### **Applicable Interim Review Guidance**

The sponsors of these exchanges (in addition to other third parties to contractual agreements) may require that the quarterly interim financial statements be reviewed by an independent accountant. As previously indicated, AU section 722 is not applicable to reviews of interim financial statements of nonissuers except in specific limited situations (that is, when a nonissuer makes a filing with a specified regulatory agency in preparation for a public offering or listing). This issue is not limited to the private equity exchanges, but rather extends to other transactions and agreements as identified previously.

### **EFFECTIVE DATE**

The proposed SAS would be effective for interim periods within fiscal years beginning after December 15, 2008. Early application would be permitted.

### **HOW IT AFFECTS EXISTING STATEMENTS ON AUDITING STANDARDS**

The proposed statement would amend AU section 722.

# PROPOSED STATEMENT ON AUDITING STANDARDS

## INTERIM FINANCIAL INFORMATION

### Amendment to AU Section 722, *Interim Financial Information* (AICPA, *Professional Standards*, vol. 1)

1. The purpose of this amendment is to revise AU section 722 to accommodate reviews of interim financial information of nonissuers, including companies offering securities pursuant to Securities and Exchange Commission (SEC) Rule 144A or participating in private equity exchanges. This amendment removes the guidance for reviews of the interim financial statements of issuers since such guidance appropriately resides in the auditing standards of the Public Company Accounting Oversight Board. New language is shown in boldface italics; deleted language is shown by strikethrough.

#### Introduction

**.01** The purpose of this section is to establish standards and provide guidance on the nature, timing, and extent of the procedures to be performed by an independent accountant when conducting a review of *interim financial information* (as that term is defined in paragraph .02 of this section) ***when the interim financial information is intended to provide a periodic update to year-end reporting (for example, interim financial reporting in accordance with Article 10 of SEC Regulation S-X) and the accountant has either (a) audited the entity's latest annual financial statements or (b) is auditing the current year financial statements and the entity's latest annual financial statements were audited by another auditor. If these conditions are not met, reviews of interim financial information of nonissuers should be performed in accordance with Statements on Standards for Accounting and Review Services.*** The three general standards discussed in section 150, *Generally Accepted Auditing Standards*, paragraph .02, are applicable to a review of interim financial information conducted in accordance with this section. This section provides guidance on the application of the field work and reporting standards to a review of interim financial information, to the extent those standards are relevant.

**.02** For purposes of this section, the term *interim financial information* means financial information or statements covering a period less than a full year or for a 12-month period ending on a date other than the entity's fiscal year end.

**.03** ***An entity may be required to engage an independent accountant to perform a review of the entity's interim financial information or otherwise may desire to do so.*** ~~The Securities and Exchange Commission (SEC) requires<sup>†</sup> a registrant to engage an independent accountant to review the registrant's interim financial information, in accordance with this section, before the registrant files its quarterly report on Form 10-Q or Form 10-QSB. Although this section *generally* does not require an accountant to issue a written report on a review of interim financial information, the SEC requires that an accountant's review report *should accompany* be filed with the~~

---

<sup>†</sup> The Securities and Exchange Commission (SEC) requirement is set forth in Rule 10-01(d) of Regulation S-X for Form 10-Q and item 210(b) of Regulation S-B for Form 10-QSB.

interim financial information if, in any filing, **any information that accompanies the interim financial information**, the entity states that the interim financial information has been reviewed by an independent public accountant **or makes other reference to the accountant's association. Based on the consideration of whether a user of the interim financial information would associate the accountant with the interim financial information and, in the absence of a review report, inappropriately assume a higher level of assurance than that provided, the accountant may decide to issue a report to accompany the interim financial information.** Paragraphs ~~37~~ ~~.36-~~ ~~46~~ ~~.45~~ of this section provide reporting guidance for a review of interim financial information.

**.04** Section 315, *Communications Between Predecessor and Successor Auditors*, requires a successor auditor to contact the entity's predecessor auditor and make inquiries of the predecessor auditor in deciding whether to accept appointment as an entity's independent auditor. Such inquiries should be completed before accepting an engagement to perform an initial review of an entity's interim financial information.

### **Applicability<sup>21</sup>**

**.05** An accountant may conduct, in accordance with this section, a review of the interim financial information ~~of an SEC registrant<sup>3</sup> or of a non-SEC registrant that makes a filing with a regulatory agency<sup>4</sup> in preparation for a public offering or listing,~~ if (a) **the accountant has audited the entity's latest annual financial statements or is auditing the current year financial statements and the entity's latest annual financial statements were audited by another auditor and** (b) **all of the following conditions are met:** ~~have been or are being audited. The interim financial information may be presented in the form of financial statements or in a summarized form that purports to conform with generally accepted accounting principles~~

- **The entity presents interim financial information that purports to conform with generally accepted accounting principles (GAAP), which includes appropriate form and content of interim financial statements, for example, Article 10 of SEC Regulation S-X (hereinafter collectively referred to as GAAP).<sup>5 2</sup> and applicable regulatory requirements, for example, Article 10 of Regulation S-X for Form 10-Q.**

---

<sup>21</sup> Statements on Standards for Accounting and Review Services provide guidance for review engagements for which this section is not applicable.

<sup>3</sup> ~~This section also is applicable to a review of the interim financial information of a subsidiary, corporate joint venture, or investee of an SEC registrant, when that review is performed in the context of the review of the interim financial information of the SEC registrant itself~~

<sup>4</sup> ~~For purposes of this section, a regulatory agency is the SEC and the following agencies with which an entity files periodic reports pursuant to the Securities Exchange Act of 1934: Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Federal Reserve System, and Office of Thrift Supervision.~~

<sup>5 2</sup> Accounting Principles Board (APB) Opinion No. 28, *Interim Financial Reporting*, 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 summarized interim financial information issued by public companies. ~~Footnote 3 of section 411, *The Meaning of Present Fairly in Conformity With*~~

- *The interim financial information includes a note that the financial information should be read in conjunction with the entity's latest audited annual financial statements.*
- *The 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. The 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 (that is, being available upon request would not be considered to be readily available).*

~~.06~~ Many SEC registrants are required by item 302(a) of Regulation S-K to include selected quarterly financial data (that is, interim financial information for each full quarter within the two most recent fiscal years and any subsequent interim period for which financial statements are included or are required to be included) in their annual reports and in certain other SEC filings. Consequently, a review of the entity's fourth quarter interim financial information must be conducted even though a quarterly report for the fourth quarter is not filed on Form 10-Q. Furthermore, an accountant performing an initial audit of an entity's annual financial statements that includes selected quarterly data who has not previously reviewed one or more of the quarters in that year should perform a review of those quarters, in accordance with this section, in order to report on the audited financial statements containing such interim financial information.

### **Objective of a Review of Interim Financial Information**

~~.07~~ .06 The objective of a review of interim financial information pursuant to this section is to provide the accountant with a basis for communicating whether he or she is aware of any material modifications that should be made to the interim financial information for it to conform with ~~generally accepted accounting principles~~ **GAAP**. The objective of a review of interim financial information differs significantly from that of an audit conducted in accordance with generally accepted auditing standards. A review of interim financial information does not provide a basis for expressing an opinion about whether the financial statements are presented fairly, in all material respects, in conformity with ~~generally accepted accounting principles~~ **GAAP**. 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) obtaining corroborating evidence in response to inquiries; or (d) performing certain other procedures ordinarily performed in an audit. A review may bring to the accountant's attention significant matters affecting the interim financial information, but it does not provide assurance that the accountant will become aware of all significant matters that would be identified in an audit. Paragraph ~~.22~~ .21 of this section provides guidance to the accountant if he or she becomes aware of information that leads him or her to believe

---

Generally Accepted Accounting Principles, paragraph .10, indicates that, for SEC registrants, rules and interpretive releases of the SEC have an authority similar to that of category "a" accounting principles.

that the interim financial information may not be in conformity with generally accepted accounting principles **GAAP**.

### **Establishing an Understanding With the Client**

~~.08~~ .07 The accountant should establish an understanding with the client regarding the services to be performed in an engagement to review interim financial information<sup>6,3</sup> **and should document the understanding through a written communication with the client.** Such an understanding reduces the risk that either the accountant or the client may misinterpret the needs or expectations of the other party. ~~This~~ **The** understanding should include the objectives of the engagement, **the limitations of the engagement,** management's responsibilities, **and** the accountant's responsibilities, ~~and the limitations of the engagement.~~ **The understanding may also include the expected form of the report (that is, orally or in writing).** ~~The accountant should document this understanding, preferably through a written communication with the client. If the accountant believes an understanding with the client has not been established, he or she should decline to accept or perform the engagement.~~ **Additionally, prior to accepting the engagement, the accountant should, through inquiry and information obtained during other engagements, assess management's ability to assert that controls are in place that are sufficient to provide a reasonable basis for the preparation of reliable interim financial information in accordance with GAAP. If management does not have the ability to make such an assertion, the independent accountant should not accept the engagement.**

~~.09~~ .08 An understanding with the client regarding a review of interim financial information generally includes the following matters.

#### *Objectives of the engagement*

- The objective of a review of interim financial information is to provide the accountant with a basis for communicating whether he or she is aware of any material modifications that should be made to the interim financial information for it to conform with accounting principles generally accepted in the United States of America.<sup>7,4</sup>
- **A review includes obtaining sufficient knowledge of the entity's business and its internal control as it relates to the preparation of both annual and interim financial information 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 accountant with a basis for communicating whether he or she is**

---

<sup>6,3</sup> See Statement on Quality Control Standards (SQCS) No. 2, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*, as amended, paragraph 16 [of QC section 20.16], **System of Quality Control for a CPA Firm's Accounting and Auditing Practice.**

<sup>4</sup> Paragraph .05 of this section addresses the selection of GAAP for interim financial information.

*aware of any material modifications that should be made to the interim financial information for it to conform with GAAP.*

*Limitations of the engagement*

- *A review is not designed to provide assurance on internal control or to identify significant deficiencies and material weaknesses in internal control. However, the accountant is responsible for communicating to management and those charged with governance any significant deficiencies or material weaknesses in internal control that come to his or her attention.*

*Management's responsibilities*

Management is responsible for

- ~~Management is responsible for~~ the entity's interim financial information.
- ~~Management is responsible for~~ establishing and maintaining effective internal control over financial reporting.
- ~~Management is responsible for~~ identifying and ensuring that the entity complies with the laws and regulations applicable to its activities.
- ~~Management is responsible for~~ making all financial records and related information available to the accountant.
- ~~At the conclusion of the engagement, management will provide~~ **providing** the accountant, **at the conclusion of the engagement**, with a letter confirming certain representations made during the review.
- ~~Management is responsible for~~ adjusting the interim financial information to correct material misstatements. Although a review of interim financial information is not designed to obtain reasonable assurance that the interim financial information is free from material misstatement, management also is responsible for affirming in its representation letter to the accountant that the effects of any uncorrected misstatements aggregated by the accountant 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 ~~taken~~ as a whole.

*The accountant's responsibilities*

- The accountant is responsible for conducting the review in accordance with standards established by the AICPA. 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 generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements ~~taken~~ as a whole. Accordingly, the accountant will not express an opinion on the interim financial information.

**Expected form of the report**

- *A description of the expected form of the accountant's report, (that is, oral or written) and a statement that if the entity states in any information that accompanies the financial statements that the information has been reviewed by the accountant or makes other reference to the accountant's association, that the accountant's review report should then be included in the document.*
- ~~A review includes obtaining sufficient knowledge of the entity's business and its internal control as it relates to the preparation of both annual and interim financial information 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 accountant with a basis for communicating whether he or she is aware of any material modifications that should be made to the interim financial information for it to conform with generally accepted accounting principles.~~
- ~~A review is not designed to provide assurance on internal control or to identify significant deficiencies and material weaknesses in internal control. However, the accountant is responsible for communicating to management and those charged with governance any significant deficiencies or material weaknesses in internal control that come to his or her attention.~~

### **The Accountant's Knowledge of the Entity's Business and Its Internal Control**

~~10~~ .09 To perform a review of interim financial information, the accountant should have sufficient knowledge of the entity's business and its internal control<sup>8,5</sup> as they relate to the preparation of both annual and interim financial information 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 accountant with a basis for communicating whether he or she is aware of any material modifications that should be made to the interim financial information for it to conform with ~~generally accepted accounting principles~~ **GAAP**.

~~11~~ .10 In planning a review of interim financial information, the accountant should perform procedures to update his or her knowledge of the entity's business and its internal control to (a) aid in the determination of the inquiries to be made and the analytical procedures to be performed and (b) identify particular events, transactions, or assertions to which the inquiries may be directed or analytical procedures applied. Such procedures should include

---

<sup>5</sup> Paragraph .07 requires the accountant to assess, through inquiry and information obtained during other engagements, whether management has the ability to assert that controls are in place that are sufficient to provide a reasonable basis for the preparation of reliable interim financial information in accordance with GAAP as a precondition to performing a review under this section.

- 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 prior year to the extent necessary, based on the accountant's judgment, to enable the accountant to identify matters that may affect the current-period interim financial information. In reading such documents, the accountant should specifically consider the nature of any (a) corrected material misstatements; (b) matters identified in any summary of uncorrected misstatements;<sup>96</sup> (c) identified risks of material misstatement due to fraud, including the risk of management override of controls; and (d) significant financial accounting and reporting matters that may be of continuing significance, such as weaknesses in internal control.
- reading the most recent annual and comparable prior interim period financial information.
- considering the results of any audit procedures performed with respect to the current year's financial statements.
- inquiring of management about changes in the entity's business activities.
- inquiring of management about whether significant changes in internal control, as it relates to the preparation 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.

~~12~~ .11 In an initial review of interim financial information, the accountant should perform procedures that will enable him or her to obtain sufficient knowledge of the entity's business and its internal control to address the objectives discussed in paragraph ~~07~~ .06 of this section. As part of the procedures to obtain this knowledge, the accountant performing an initial review of interim financial information makes inquiries of the predecessor accountant and reviews the predecessor accountant's documentation for the preceding annual audit and for any prior interim periods in the current year that have been reviewed by the predecessor accountant if the predecessor accountant permits access to such documentation.<sup>497</sup> In doing so, the accountant should specifically consider the nature of any (a) corrected material misstatements; (b) matters identified in any summary of uncorrected misstatements; (c) identified risks of material misstatement due to fraud, including the risk of management override of controls; and (d) significant financial accounting and reporting matters that may be of continuing significance, such as weaknesses in internal control.

---

<sup>96</sup> Section 312, *Audit Risk and Materiality in Conducting an Audit*, paragraphs .69–.70, requires the auditor to document the nature and effect of misstatements that the auditor aggregates as well as the auditor's conclusion as to whether such misstatements, individually or in the aggregate, cause the audited financial statements to be materially misstated. Paragraphs ~~25~~ .24–~~26~~ .25 of this section describe the accountant's consideration of such misstatements in a review of interim financial information.

<sup>497</sup> The accountant also may consider reviewing the predecessor accountant's documentation related to reviews of interim period(s) 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 successor accountant. If the successor accountant is reporting on the review, the successor accountant should not make reference to the report or work of the predecessor accountant as the basis, in part, for the successor accountant's own report. If the predecessor accountant does not respond to the successor accountant's inquiries, or does not allow the successor accountant to review the predecessor accountant's documentation, the successor accountant should use alternative procedures to obtain knowledge of the matters discussed in this paragraph.

~~13~~ .12 The accountant who has audited the entity's financial statements for one or more annual periods would have acquired sufficient knowledge of an entity's internal control as it relates to the preparation of annual financial information and may have acquired such knowledge with respect to interim financial information. If the accountant has not audited the most recent annual financial statements, the accountant should perform procedures to obtain such knowledge. Knowledge of an entity's internal control, as it relates to the preparation of both annual and interim financial information, includes knowledge of the relevant aspects of the control environment, the entity's risk assessment process, control activities, information and communication, and monitoring, as those terms are defined in section 314, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*. Internal control over the preparation of interim financial information may differ from internal control over the preparation 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, which is prescribed by Accounting Principles Board (APB) Opinion No. 28, *Interim Financial Reporting*.

~~14~~ .13 A restriction on the scope of the review may be imposed if the entity's internal control appears to contain deficiencies so significant that it would be impracticable for the accountant, based on his or her judgment, to effectively perform review procedures that would provide a basis for communicating whether he or she is aware of any material modifications that should be made to the interim financial information for it to conform with ~~generally accepted accounting principles~~ **GAAP**.<sup>++8</sup>

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

~~15~~ .14 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 to be reported. The accountant performs these procedures to obtain a basis for communicating whether he or she is aware of any material modifications that should be made to the interim financial information for it to conform with ~~generally accepted accounting principles~~ **GAAP**. The specific inquiries made and the analytical and other procedures performed should be tailored to the engagement based on the accountant's knowledge of the entity's business and its internal control. The accountant's knowledge of an entity's business and its internal control influences the

---

<sup>++ 8</sup> See paragraph ~~28~~ .29 of this section.

inquiries made and analytical procedures performed. For example, if the accountant becomes aware of a significant change in the entity's control activities at a particular location, the accountant may consider (a) making additional inquiries, such as whether management monitored the changes and considered whether they were operating as intended, (b) employing analytical procedures with a more precise expectation, or (c) both.

~~16~~ .15 *Analytical procedures and related inquiries.* The accountant 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. Analytical procedures, for the purposes of this section, should include

- comparing the quarterly interim financial information with comparable information for the immediately preceding interim period and the quarterly and year-to-date interim financial information with the corresponding period(s) in the previous year, giving consideration to knowledge about changes in the entity's business and specific transactions.
- considering plausible relationships among both financial and, where relevant, nonfinancial information. The accountant also may wish to consider information developed and used by the entity, for example, information in a director's information package or in a senior committee's briefing materials.
- comparing recorded amounts, or ratios developed from recorded amounts, to expectations developed by the accountant. The accountant develops such expectations by identifying and using plausible relationships that are reasonably expected to exist based on the accountant's understanding of the entity and the industry in which the entity operates (see paragraph ~~17~~ .16 of this section).
- comparing disaggregated revenue data, for example, comparing revenue reported by month and by product line or operating segment during the current interim period with that of comparable prior periods. See appendix A [paragraph ~~54~~ .51] of this section for examples of analytical procedures an accountant may consider performing when conducting a review of interim financial information. The accountant may find the guidance in section 329, *Analytical Procedures*, useful in conducting a review of interim financial information.

~~17~~ .16 Expectations developed by the accountant 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 accountant ordinarily is not required to corroborate management's responses with other evidence. However, the accountant should consider the reasonableness and consistency of management's responses in light of the results of other review procedures and the accountant's knowledge of the entity's business and its internal control.<sup>+29</sup>

---

<sup>+29</sup> See paragraph ~~22~~ .21 of this section.

~~18~~ .17 *Inquiries and other review procedures.* The following are inquiries the accountant should make and other review procedures the accountant should perform when conducting a review of interim financial information:

- a. Reading the available minutes of meetings of stockholders, directors, and appropriate committees, and inquiring about matters dealt with at meetings for which minutes are not available, to identify matters that may affect the interim financial information.
- b. Obtaining reports from other accountants, if any, who have been engaged to perform a review of the interim financial information of significant components of the reporting entity, its subsidiaries, or its other investees, or inquiring of those accountants if reports have not been issued.<sup>4310</sup>
- c. Inquiring of members of management who have responsibility for financial and accounting matters concerning:
  - Whether the interim financial information has been prepared in conformity with ~~generally accepted accounting principles~~ **GAAP** consistently applied.
  - Unusual or complex situations that may have an effect on the interim financial information. (See appendix B [paragraph ~~55.52~~] of this section for examples of unusual or complex situations about which the accountant ordinarily would inquire of management.)
  - Significant transactions occurring or recognized in the last several days of the interim period.
  - The status of uncorrected misstatements identified during the previous audit and interim review (that is, whether adjustments had been recorded subsequent to the prior audit or interim period and, if so, the amounts recorded and period in which such adjustments were recorded).
  - Matters about which questions have arisen in the course of applying the review procedures.
  - Events subsequent to the date of the interim financial information that could have a material effect on the presentation of such information.
  - Their 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 where the fraud could have a material effect on the financial statements.

---

<sup>4310</sup> In these circumstances, the accountant ordinarily is in a position similar to that of an auditor who acts as principal auditor (see section 543, *Part of Audit Performed by Other Independent Auditors*) and makes use of the work or reports of other auditors in the course of an audit of financial statements.

- Whether they are aware of allegations of fraud or suspected fraud affecting the entity, for example, received in communications from employees, former employees, analysts, regulators, short sellers, or others.
  - Significant journal entries and other adjustments.
  - Communications from regulatory agencies.
  - Significant deficiencies and material weaknesses, in the design or operation of ~~internal controls which could adversely affect the issuer's ability to record, process, summarize, and report financial data.~~
- d. Obtaining evidence that the interim financial information agrees or reconciles with the accounting records. For example, the accountant may compare the interim financial information to (1) the accounting records, such as the general ledger; (2) a consolidating schedule derived from the accounting records; or (3) other supporting data in the entity's records. In addition, the accountant should consider inquiring of management as to the reliability of the records to which the interim financial information was compared or reconciled.
- e. Reading the interim financial information to consider whether, based on the results of the review procedures performed and other information that has come to the accountant's attention, the information to be reported conforms with ~~generally accepted accounting principles~~ **GAAP**
- f. Reading other information *in documents containing* ~~that accompanies the interim financial information and is contained in reports~~<sup>411</sup> (1) to holders of securities or beneficial interests or (2) filed with regulatory authorities under the Securities Exchange Act of 1934 (such as Form 10-Q or 10-QSB), to consider whether such information or the manner of its presentation is materially inconsistent with the interim financial information.<sup>4512</sup> If the accountant concludes that there is a material inconsistency, or becomes aware of information that he or she believes is a material misstatement of fact, the action taken will depend on his or her judgment in the particular circumstances. In determining the appropriate course of action, the accountant should consider the guidance in section 550, *Other Information in Documents Containing Audited Financial Statements*, paragraphs .04-.06).

~~19~~ .18 Many of the aforementioned review procedures can be performed before or simultaneously with the entity's preparation of the interim financial information. For example, it may be practicable to update the understanding of the entity's internal control and begin reading applicable minutes before the end of an interim period. Performing some of the review procedures earlier in the interim period also permits

---

<sup>11</sup> *Section 550, Other Information in Documents Containing Audited Financial Statements, provides guidance for the auditor's consideration of other information included in such documents.*

<sup>45 12</sup> The principal accountant also may request other accountants involved in the engagement, if any, to read the other information

early identification and consideration of significant accounting matters affecting the interim financial information.

~~20~~ .19 *Inquiry concerning litigation, claims, and assessments.* A review of interim financial information does not contemplate obtaining corroborating evidence for responses to inquiries concerning litigation, claims, and assessments (see paragraph ~~07~~ .06 of this section). Consequently, it ordinarily is not necessary to send an inquiry letter to an entity's lawyer concerning litigation, claims, and assessments. However, if information comes to the accountant's attention that leads him or her to question whether the interim financial information departs from ~~generally accepted accounting principles~~ **GAAP**<sup>16,13</sup> with respect to litigation, claims, or assessments, and the accountant believes the entity's lawyer may have information concerning that question, an inquiry of the lawyer concerning the specific question is appropriate.

~~21~~ .20 *Inquiry concerning an entity's ability to continue as a going concern.* 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, such conditions or events may have existed at the date of prior-period financial statements.<sup>17,14</sup> In addition, in the course of performing review procedures on the current-period interim financial information, the accountant may become aware of conditions or events that might be indicative of the entity's possible inability to continue as a going concern. In either case, the accountant should (a) inquire of management as to its plans for dealing with the adverse effects of the conditions and events and (b) consider the adequacy of the disclosure about such matters in the interim financial information.<sup>18,15</sup> It ordinarily is not necessary for the accountant to obtain evidence in support of the information that mitigates the effects of the conditions and events.

~~22~~ .21 *Extension of interim review procedures.* If, in performing a review of interim financial information, the accountant becomes aware of information that leads him or her to believe that the interim financial information may not be in conformity with ~~generally accepted accounting principles~~ **GAAP** in all material respects, the accountant should make additional inquiries or perform other procedures that the accountant considers appropriate to provide a basis for communicating whether he or she is aware of any material modifications that should be made to the interim financial information. For example, if the accountant's interim review procedures lead him or

---

<sup>16,13</sup> For example, in accordance with APB Opinion No. 28, **Interim Financial Reporting**, and Article 10 of Regulation S-X, contingencies and other uncertainties that could be expected to affect the fairness of the presentation of financial data at an interim date should be disclosed in interim reports in the same manner required for annual reports. Such disclosures should be repeated in interim and annual reports until the contingencies have been removed, resolved, or become immaterial. The significance of a contingency or uncertainty should be judged in relation to annual financial statements.

<sup>17,14</sup> For purposes of this section, "conditions or events that existed at the date of prior-period financial statements" include (a) substantial doubt about the entity's ability to continue as a going concern that existed at the preceding year end, regardless of whether the substantial doubt was alleviated by the auditor's consideration of management's plans, or (b) conditions and events disclosed in the immediately preceding interim period.

<sup>18,15</sup> Information that might be disclosed is set forth in section 341A, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, paragraph .10. If the accountant determines that the disclosure about the entity's possible inability to continue as a going concern is inadequate, a departure from generally accepted accounting principles exists.

her to question whether a significant sales transaction is recorded in conformity with ~~generally accepted accounting principles~~ **GAAP**, the accountant should perform additional procedures, such as discussing the terms of the transaction with senior marketing and accounting personnel, reading the sales contract, or both, to resolve his or her questions.

~~.23~~ .22 *Coordination with the audit.* ~~The accountant performing the review of interim financial information ordinarily will also be engaged to perform an audit of the annual financial statements of the entity.~~ Certain auditing procedures ***associated with the annual audit*** 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 used for the annual audit. Also, there may be significant or unusual transactions occurring during the interim period under review for which the auditing 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 interim review, for example, business combinations, restructurings, or significant revenue transactions.

### **Written Representations From Management**

~~.24~~ .23 Written representations from management should be obtained for all interim financial information presented and for all periods covered by the review. Specific representations should relate to the following matters:<sup>1916</sup>

#### *Financial Statements*

- a. Management's acknowledgement of its responsibility for the fair presentation of the interim financial information in conformity with ~~generally accepted accounting principles~~ **GAAP**.
- b. Management's belief that the interim financial information has been prepared and presented in conformity with ~~generally accepted accounting principles~~ **GAAP** applicable to interim financial information.

#### *Internal Control*

- c. ***Acknowledgement of management's responsibility to establish controls that are sufficient to provide a reasonable basis for the preparation of reliable interim financial information in accordance with GAAP.***
- ed. Disclosure of all significant deficiencies and material weaknesses, in the design or operation of ~~internal controls which could adversely affect the issuer's ability to record, process, summarize, and report financial data.~~
- de. Acknowledgment of management's responsibility for the design and implementation of programs and controls to prevent and detect fraud.

---

<sup>1916</sup> For additional guidance regarding written management representations, see section 333, *Management Representations*, paragraphs .08–.12.

~~ef~~. Knowledge of fraud or suspected fraud affecting the entity involving (1) management, (2) employees who have significant roles in internal control, or (3) others where the fraud could have a material effect on the financial statements.

~~fg~~. Knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, short sellers, or others.

#### *Completeness of Information*

~~gh~~. Availability of all financial records and related data.

~~hi~~. Completeness and availability of all minutes of meetings of stockholders, directors, and committees of directors.

~~ij~~. Communications with regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.

~~jk~~. Absence of unrecorded transactions.

#### *Recognition, Measurement, and Disclosure*

~~kl~~. Management's belief that the effects of any uncorrected financial statement misstatements aggregated by the accountant during the current review engagement and pertaining to the interim period(s) in the current year are immaterial, both individually and in the aggregate, to the interim financial information ~~taken~~ as a whole. (A summary of such items should be included in or attached to the letter.)<sup>2017</sup>

~~lm~~. Plans or intentions that may materially affect the carrying value or classification of assets or liabilities.

~~mn~~. Information concerning related-party transactions and amounts receivable from or payable to related parties.

~~no~~. Guarantees, whether written or oral, under which the entity is contingently liable.

~~op~~. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with the AICPA's Statement of Position 94-6, *Disclosure of Certain Significant Risks and Uncertainties (AICPA, Technical Practice Aids, ACC sec. 10,640)*.

~~pq~~. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the interim financial information or as a basis for recording a loss contingency.

---

<sup>2017</sup> If a summary of uncorrected misstatements is unnecessary because there were no uncorrected misstatements identified, this representation should be eliminated.

~~¶r.~~ Unasserted claims or assessments that are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*.

~~¶s.~~ Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.

~~¶t.~~ Satisfactory title to all owned assets, liens or encumbrances on such assets, and assets pledged as collateral.

~~¶u.~~ Compliance with aspects of contractual agreements that may affect the interim financial information.

### *Subsequent Events*

~~¶v.~~ Information concerning subsequent events.

The representation letter ordinarily should be tailored to include additional representations from management related to matters specific to the entity's business or industry. Appendix C [paragraph ~~56.53~~] of this section presents illustrative representation letters.

### **Evaluating the Results of Interim Review Procedures**

~~25~~ .24 A review of interim financial information is not designed to obtain reasonable assurance that the interim financial information is free of material misstatement. However, based on the review procedures performed, the accountant may become aware of *likely misstatements*. In the context of an interim review, a likely misstatement is the accountant's best estimate of the total misstatement in the account balances or classes of transactions on which he or she has performed review procedures. The accountant should accumulate for further evaluation likely misstatements identified in performing the review procedures. The accountant may designate an amount below which misstatements need not be accumulated, based on his or her professional judgment. However, the accountant should recognize that aggregated misstatements of relatively small amounts could have a material effect on the interim financial information.

~~26~~ .25 Misstatements identified by the accountant or brought to the accountant's attention, including inadequate disclosure,<sup>2418</sup> should be evaluated individually and in

---

<sup>24 18</sup> *For example*, Rule 10-01 of Regulation S-X states-

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

the aggregate to determine whether material modification should be made to the interim financial information for it to conform with ~~generally accepted accounting principles~~ **GAAP**.<sup>22,19</sup> The accountant should use his or her professional judgment in evaluating the materiality of any likely misstatements that the entity has not corrected. The accountant should consider matters such as (a) the nature, cause (if known), and amount of the misstatements; (b) whether the misstatements originated in the preceding year or interim periods of the current year; (c) materiality judgments made in conjunction with the current or prior year's annual audit; and (d) the potential effect of the misstatements on future interim or annual periods.<sup>23,20</sup>

~~27~~ .26 When evaluating whether uncorrected likely misstatements, individually or in the aggregate, are material, the accountant also should (a) consider the appropriateness of offsetting a misstatement of an estimated amount with a misstatement of an item capable of precise measurement and (b) recognize that an accumulation of immaterial misstatements in the balance sheet could contribute to material misstatements in future periods.

~~28~~ .27 When an accountant is unable to perform the procedures he or she considers necessary to achieve the objective of a review of interim financial information, or the client does not provide the accountant with the written representations the accountant believes are necessary, the review will be incomplete. An incomplete review is not an adequate basis for issuing a review report. If the accountant cannot complete the review, the accountant should communicate that information in accordance with the guidance in paragraphs ~~29~~ .28–~~31~~ .30 of this section. Nevertheless, if the accountant has become aware of material modifications that should be made to the interim financial information for it to conform with ~~generally accepted accounting principles~~ **GAAP**, such matters should be communicated pursuant to paragraphs ~~29~~ .28–~~31~~ .30 of this section.

### **Communications to Management and Those Charged With Governance**

~~29~~ .28 As a result of conducting a review of interim financial information, the accountant may become aware of matters that cause him or her to believe that (a)

---

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.

<sup>22,19</sup> APB Opinion No. 28 describes the applicability of generally accepted accounting principles to interim financial information and indicates the types of disclosures necessary to report on a meaningful basis for a period of less than a full year. Paragraph 29 of Opinion No. 28 provides guidance on assessing materiality in interim periods. For example, the opinion states, "In determining materiality for the purpose of reporting the cumulative effect of an accounting change or correction of an error, amounts should be related to the estimated income for the full fiscal year and also to the effect on the trend of earnings."

<sup>23,20</sup> Section 312 paragraph .60 provides guidance with respect to the auditor's qualitative considerations in evaluating whether the financial statements are free of material misstatements.

material modification should be made to the interim financial information for it to conform with ~~generally accepted accounting principles~~ **GAAP** or (b) that the entity **issued the interim financial information** ~~filed the Form 10-Q or Form 10-QSB~~ before the completion of the review, **in those circumstances in which a review is required**. In such circumstances, the accountant should communicate the matter(s) to the appropriate level of management as soon as practicable.

~~30~~ .29 If, in the accountant's judgment, management does not respond appropriately to the accountant's communication within a reasonable period of time, the accountant should inform those charged with governance of the matters as soon as practicable. This communication may be oral or written. If information is communicated orally, the accountant should document the communication.

~~31~~ .30 If, in the accountant's judgment, those charged with governance do not respond appropriately to the accountant's communication within a reasonable period of time, the accountant should evaluate whether to resign from the engagement to review the interim financial information and as the entity's auditor. The accountant may wish to consult with his or her attorney when making these evaluations.

~~32~~ .31 When conducting a review of interim financial information, the accountant may become aware of fraud or possible illegal acts. If the matter involves fraud, it should be brought to the attention of the appropriate level of management. If the fraud involves senior management or results in a material misstatement of the financial statements, the accountant should communicate the matter directly to those charged with governance as described in section 316, *Consideration of Fraud in a Financial Statement Audit*, paragraphs .79–.82. If the matter involves possible illegal acts, the accountant should assure himself or herself that those charged with governance are adequately informed, unless the matter is clearly inconsequential.<sup>24,21</sup> (See section 317, *Illegal Acts by Clients*, paragraph .17.)

~~33~~ .32 When conducting a review of interim financial information, the accountant may become aware of significant deficiencies and material weaknesses in internal control that should be communicated to management and those charged with governance. **Section 325, Communicating Internal Control Related Matters Identified in an Audit, defines A significant deficiency as a deficiency, or combination of deficiencies, in internal control over financial reporting, that in the auditor's professional judgment, is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Section 325 defines** ~~is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood<sup>25</sup> that a misstatement of the entity's financial~~

---

<sup>24,21</sup> The accountant may have additional communication responsibilities pursuant to section 317, *Illegal Acts by Clients*; Section 10A of the Securities Exchange Act of 1934; and section 316, *Consideration of Fraud in a Financial Statement Audit*.

<sup>25</sup> ~~The term remote likelihood as used in the definitions of the terms significant deficiency and material weakness has the same meaning as the term remote as used in Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*. Paragraph 3 of FASB Statement No. 5 states:~~

~~statements that is more than inconsequential will not be prevented or detected. A material weakness as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.~~ is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. The accountant also may wish to submit recommendations related to other matters that come to the accountant's attention.<sup>26 22</sup>

~~34~~ .33 When conducting a review of interim financial information, the accountant also should determine whether any of the matters described in section 380, *The Auditor's Communication With Those Charged With Governance*, as they relate to the interim financial information, have been identified. If such matters have been identified, the accountant should communicate them to those charged with governance or be satisfied, through discussion with those charged with governance, that such matters have been communicated to those charged with governance by management. For example, the accountant should determine that those charged with governance are informed about the process used by management to formulate particularly sensitive accounting estimates; about a change in a significant accounting policy affecting the interim financial information; about adjustments that, either individually or in the aggregate, could have a significant effect on the entity's financial reporting process; and about uncorrected misstatements aggregated by the accountant that were determined by management to be immaterial, both individually and in the aggregate, to the interim financial statements ~~taken~~ as a whole.<sup>27 23</sup>

~~35~~ .34 The objective of a review of interim financial information differs significantly from that of an audit. Therefore, any communication the accountant may make about the quality, not just the acceptability, of the entity's accounting principles as applied to its interim financial reporting generally would be limited to the effect of significant events, transactions, and changes in accounting estimates that the accountant considered when conducting the review of interim financial information. Further, interim review procedures do not provide assurance that the accountant will become aware of all matters that might affect the accountant's judgments about the quality of the entity's accounting principles that would be identified as a result of an audit.

---

~~When a loss contingency exists, the likelihood that the future event or events will confirm the loss or impairment of an asset or the incurrence of a liability can range from probable to remote. This Statement uses the terms *probable*, *reasonably possible*, and *remote* to identify three areas within that range, as follows:~~

~~a. *Probable*. The future event or events are likely to occur.~~

~~b. *Reasonably possible*. The chance of the future event or events occurring is more than remote but less than likely.~~

~~c. *Remote*. The chance of the future events or events occurring is slight.~~

<sup>26 22</sup> Section 325, *Communicating Internal Control Related Matters Identified in an Audit*, provides guidance on communicating significant deficiencies and material weaknesses in internal control.

<sup>27 23</sup> The presentation to those charged with governance should be similar to the summary of uncorrected misstatements included in or attached to the management representation letter that is described in paragraph ~~24h.23k~~ of this section.

~~.36~~ .35 If the accountant has identified matters to be communicated to those charged with governance, the accountant should attempt to make such communications with those charged with governance, or at least the chair of its audit committee, and a representative of management before the entity ~~files~~ *issues* its interim financial information ~~with a regulatory agency (such as the SEC)~~. If such communications cannot be made before the ~~filing~~ *issuance*, they should be made as soon as practicable in the circumstances. The communications may be oral or written. If information is communicated orally, the accountant should document the communications.

## The Accountant's Report on a Review of Interim Financial Information<sup>28</sup>

### Form of Accountant's Review Report

~~.37~~ .36 *Pursuant to paragraph .03 of this standard, an accountant is not required to issue a report on a review of interim financial information. However, if the auditor is engaged to issue a written report or determines to issue a written report, the* ~~The~~ accountant's review report accompanying interim financial information should consist of *the following*:

- a. A title that includes the word *independent*.
- b. A statement that the interim financial information identified in the report was reviewed.
- c. A statement that the interim financial information is the responsibility of the entity's management.
- d. A statement that the review of interim financial information was conducted in accordance with standards established by the AICPA.
- e. A description of the procedures for a review of interim financial information.
- f. A statement that a review of interim financial information is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is an expression of an opinion regarding the financial statements ~~taken~~ as a whole, and accordingly, no such opinion is expressed.
- g. A statement about whether the accountant is aware of any material modifications that should be made to the accompanying interim financial information for it to conform with ~~generally accepted accounting principles~~ **GAAP**. The statement should include an identification of the country of origin of those accounting principles (for example, accounting principles generally accepted in the United States of America or U.S. ~~generally accepted accounting principles~~ **GAAP**).
- h. The manual or printed signature of the accountant's firm.

---

<sup>28</sup> ~~Paragraphs .37 through .46 of this section provide reporting guidance for a review of interim financial information; however, an accountant is not required to issue a report on such engagements.~~

- i. The date of the review report. (Generally, the report should be dated as of the date of completion of the review procedures.<sup>29,24</sup>)

In addition, each page of the interim financial information should be clearly marked as unaudited.

**38** .37 The following is an example of a review report:<sup>30,25</sup>

#### Independent Accountant's Report

We have reviewed the accompanying [*describe the interim financial information or statements reviewed*] of ABC Company and consolidated subsidiaries as of September 30, 20X1, and for the three-month and nine-month periods then ended. This (These) interim financial information (statements) is (are) the responsibility of the company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. 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 generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements ~~taken~~ as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial information (statements) for it (them) to be in conformity with accounting principles generally accepted in the United States of America.

[*Signature*]

[*Date*]

**39** .38 An accountant may be engaged to report on a review of comparative interim financial information.<sup>31,26</sup> The following is an example of a review report on a

---

<sup>29,24</sup> Other reporting issues related to the dating of reports or subsequent events are similar to those encountered in an audit of financial statements. See sections 530, *Dating of the Independent Auditor's Report*, and 560, *Subsequent Events*.

<sup>30, 25</sup> If interim financial information of a prior period is presented with that of the current period and the accountant has conducted a review of that information, the accountant should report on his or her review of the prior period. An example of the first sentence of such a report follows: "We have reviewed... of ABC Company and consolidated subsidiaries as of September 30, 20X1 and 20X2, and for the three-month and nine-month periods then ended...."

<sup>31,26</sup> For example, Regulation S-X specifies that the following comparative financial information should be provided in filings on Form 10-Q:

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, ~~that were included in Form 10-Q.~~<sup>34</sup>

### Independent Accountant's Report

We have reviewed the condensed consolidated balance sheet of ABC Company and subsidiaries 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. These financial statements are the responsibility of the company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. 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 generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements ~~taken~~ as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

- 
- a. *An interim balance sheet as of the end of the most recent fiscal quarter and a balance sheet as of the end of the preceding fiscal year that may be condensed to the same extent as the interim balance sheet.*
  - b. *Interim condensed statements of income for the most recent fiscal quarter, for the period between the end of the preceding fiscal year and the end of the most recent fiscal quarter, and for the corresponding periods of the preceding fiscal year.*
  - c. *Interim condensed cash flow statements for the period between the end of the preceding fiscal year and the end of the most recent fiscal quarter and for the corresponding period for the preceding fiscal year.*

<sup>34</sup> ~~Regulation S X specifies that the following financial information should be provided in filings on Form 10-Q:~~

~~a. An interim balance sheet as of the end of the most recent fiscal quarter and a balance sheet as of the end of the preceding fiscal year that may be condensed to the same extent as the interim balance sheet.~~

~~b. Interim condensed statements of income for the most recent fiscal quarter, for the period between the end of the preceding fiscal year and the end of the most recent fiscal quarter, and for the corresponding periods of the preceding fiscal year.~~

~~c. Interim condensed cash flow statements for the period between the end of the preceding fiscal year and the end of the most recent fiscal quarter and for the corresponding period for the preceding fiscal year.~~

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of ABC Company and subsidiaries as of December 31, 20X0, and the related consolidated statements of income, retained earnings, and cash flows for the year then ended (not presented herein); and in our report dated February 15, 20X1, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 20X0, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.<sup>32.27</sup>

[Signature]

[Date]

**40** .39 The accountant may use and make reference to another accountant's review report on the interim financial information of a significant component of a reporting entity. This reference indicates a division of responsibility for performing the review.<sup>33.28</sup> The following is an example of report including such a reference:

#### Independent Accountant's Report

We have reviewed the accompanying [*describe the interim financial information or statements reviewed*] of ABC Company and consolidated subsidiaries as of September 30, 20X1, and for the three-month and nine-month periods then ended. This (These) interim financial information (statements) is (are) the responsibility of the company's management.

We were furnished with the report of other accountants 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.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information (statements) 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 generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements ~~taken~~ as a whole. Accordingly, we do not express such an opinion.

Based on our review and the report of other accountants, we are not aware of any material modifications that should be made to the accompanying interim

---

<sup>32.27</sup> If the auditor's report on the preceding year-end financial statements was other than unqualified, referred to other auditors, or included an explanatory paragraph because of a going-concern matter or an inconsistency in the application of accounting principles, the last paragraph of the illustrative report in paragraph **39** .38 should be appropriately modified.

<sup>33.28</sup> See section 543.

financial information (statements) for it (them) to be in conformity with accounting principles generally accepted in the United States of America.

[*Signature*]

[*Date*]

### **Modification of the Accountant's Review Report**

~~.41~~ .40 The accountant's report on a review of interim financial information should be modified for departures from ~~generally accepted accounting principles GAAP~~,<sup>34</sup><sup>29</sup> which include inadequate disclosure and changes in accounting principle that are not in conformity with ~~generally accepted accounting principles GAAP~~. The existence of substantial doubt about the entity's ability to continue as a going concern or a lack of consistency in the application of accounting principles affecting the interim financial information would not require the accountant to add an additional paragraph to the report, provided that the interim financial information appropriately discloses such matters. Although not required, the accountant may wish to emphasize such matters in a separate explanatory paragraph of the report. See paragraphs ~~.44 .43~~ ~~.45~~ .44 of this section for examples of paragraphs that address matters related to an entity's ability to continue as a going concern.

~~.42~~ .41 *Departure from ~~generally accepted accounting principles GAAP~~*. If the accountant becomes aware that the interim financial information is materially affected by a departure from ~~generally accepted accounting principles GAAP~~, he or she should modify the report. The modification should describe the nature of the departure and, if practicable, should state the effects on the interim financial information. Following is an example of such a modification of the accountant's report.

[*Explanatory third 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 conform with 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 by \$\_\_\_\_\_, and net income and earnings per share would be increased (decreased) by \$\_\_\_\_\_, \$\_\_\_\_\_, \$\_\_\_\_\_, and \$\_\_\_\_\_, respectively, for the three-month and nine-month periods then ended.

[*Concluding paragraph*]

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

---

<sup>34,29</sup> If the circumstances contemplated by Rule 203, *Accounting Principles*, are present, the accountant should refer to the guidance in section 508, *Reports on Audited Financial Statements*, paragraph .15.

(statements) for it (them) to be in conformity with accounting principles generally accepted in the United States of America.

~~.43~~ .42 *Inadequate disclosure.* 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 APB Opinion No. 28, paragraph 30, which is applicable to summarized 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 conformity with ~~generally accepted accounting principles GAAP.~~<sup>35,30</sup> If information that the accountant believes is necessary for adequate disclosure in conformity with ~~generally accepted accounting principles GAAP~~<sup>36,31</sup> is not included in the interim financial information, the accountant should modify the report and, if practicable, include the necessary information in the report. The following is an example of such a modification of the accountant's report:

*[Explanatory third paragraph]*

Management has informed us that the company is presently ~~contesting~~ ~~deficiencies in federal income taxes proposed by the Internal Revenue Service for the years 20X1 through 20X3 in the aggregate amount of approximately \$\_\_\_\_\_,~~ ***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 information (statements) is not determinable at this time. The information (statements) fail(s) to disclose these matters, which we believe are required to be disclosed in conformity with accounting principles generally accepted in the United States of America.

*[Concluding paragraph]*

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 (statements) for it (them) to be in conformity with accounting principles generally accepted in the United States of America.

~~.44~~ .43 Going-concern paragraph was included in the prior year's audit report; conditions giving rise to the paragraph continue to exist. If (a) the auditor's report for the prior year end contained an explanatory paragraph indicating the existence of substantial doubt about the entity's ability to continue as a going concern, (b) the conditions that raised such doubt continued to exist as of the interim reporting date

---

<sup>35</sup> <sup>30</sup> APB Opinion No. 28, paragraph 32, states that "there is a presumption that users of summarized interim financial data will have read the latest published annual report, including the financial disclosures required by generally accepted accounting principles and management's commentary concerning the annual financial results, and that the summarized interim data will be viewed in that context." See footnote 18 of this section for additional disclosure requirements.

<sup>36</sup> <sup>31</sup> Such disclosures include those set forth in section 341 paragraph .10. If the accountant determines that disclosure about the entity's possible inability to continue as a going concern is inadequate, a departure from generally accepted accounting principles exists

covered by the review, and (c) there is adequate and appropriate disclosure about these conditions in the interim financial information, the accountant is not required to modify his or her report. However, the accountant may add an explanatory paragraph to the review report, after the concluding paragraph, emphasizing the matter disclosed in the audited financial statements and the interim financial information. The following is an example of such a 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 explanatory 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 statements 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.

~~.45~~ .44 *Going-concern paragraph was not included in the prior year's audit report; 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. If (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, and (b) there is adequate and appropriate disclosure about these conditions or events in the interim financial information, the accountant is not required to modify his or her report. However, the accountant may add an explanatory paragraph to the review report, after the concluding paragraph, emphasizing the matter disclosed in the interim financial information. The following is an example of such a 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.

#### **Subsequent Discovery of Facts Existing at the Date of the Accountant's Report**

~~.46~~ .45 Subsequent to the date of the accountant's review report or the completion of the interim review procedures, if a report is not issued, the accountant may become aware that facts existed at the date of the review report (or the completion of the review procedures) that might have affected the accountant's report (or conclusion, if a report is not issued) had he or she then been aware of those matters. Because of the variety of conditions that might be encountered, the specific actions to be taken by the accountant in a particular case may vary with the circumstances. In any event, the accountant should consider the guidance in section 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*.

#### **Client's Representation Concerning a Review of Interim Financial Information**

~~.47~~ .46 If a client represents in a document filed with a regulatory agency (see paragraph .03 of this section for the SEC requirement) or issued to stockholders or

third parties, that the accountant has reviewed the interim financial information included in the document, the accountant should advise the entity that his or her review report must be included in the document. If the client will not agree to include the accountant's review report, the accountant should perform the following procedures.

- Request that the accountant's name be neither associated with the interim financial information nor referred to in the document.
- If the client does not comply with the request, advise the client that the accountant will not ~~consent~~ *permit* either ~~to~~ the use of his or her name or ~~to~~ reference to him or her.
- When appropriate, recommend that the client consult with its legal counsel about the application of relevant laws and regulations to the circumstances.
- Consider what other actions might be appropriate.<sup>37.32</sup>

~~.48~~ .47 If a client represents in a document filed with a regulatory agency (see paragraph .03 of this section for the SEC requirement) or issued to stockholders or third parties that the accountant has reviewed the interim financial information included in the document, and the accountant has been unable to complete the review of the interim financial information, the accountant should refer to paragraph ~~.28~~ .27 of this section for guidance.

### **~~Interim Financial Information Accompanying Audited Financial Statements~~**

~~.49~~ Interim financial information may be presented as supplementary information outside audited financial statements. In such circumstances, each page of the interim financial information should be clearly marked as unaudited. If management chooses or is required to present interim financial information in a note to the audited financial statements, the information also should be clearly marked as unaudited.

~~.50~~ The auditor ordinarily need not modify his or her report on the audited financial statements to refer to his or her having performed a review in accordance with this section or to refer to the interim financial information accompanying the audited financial statements because the interim financial information has not been audited and is not required for the audited financial statements to be fairly stated in conformity with generally accepted accounting principles. The auditor's report on the audited financial statements should, however, be modified in the following circumstances:

*a.* 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. (In these circumstances the auditor should disclaim an opinion on the interim financial information.)

---

<sup>37.32</sup>In considering what actions, if any, may be appropriate in these circumstances, the accountant should consider consulting his or her legal counsel.

~~b. The interim financial information accompanying audited financial statements does not appear to be presented in conformity with generally accepted accounting principles (see paragraphs .42 and .43 of this section). However, the auditor need not modify his or her report on the audited financial statements if his or her separate review report, which refers to those circumstances, is presented with the information.~~

~~c. The selected quarterly financial data required by item 302(a) of Regulation S-K is omitted. The following is an example of a paragraph that should be added to the auditor's report if the selected quarterly financial data required by item 302(a) is omitted. The company has not presented the selected quarterly financial data specified in item 302(a) of Regulation S-K that the Securities and Exchange Commission requires as supplementary information to the basic financial statements.~~

~~d. The selected quarterly financial data required by item 302(a) of Regulation S-K has not been reviewed. The following is an example of a paragraph that should be added to the auditor's report if the selected quarterly financial data required by item 302(a) has not been reviewed.~~

~~The selected quarterly financial data on page xx contains information that we did not audit, and, accordingly, we do not express an opinion on that data. We attempted but were unable to review the quarterly data in accordance with standards established by the American Institute of Certified Public Accountants because we believe that the company's internal control for the preparation of interim financial information does not provide an adequate basis to enable us to complete such a review.~~

## **Documentation**

~~.51~~ .48 The accountant should prepare documentation in connection with a review of interim financial information, the form and content of which should be designed to meet the circumstances of the particular engagement. Documentation is the principal record of the review procedures performed and the conclusions reached by the accountant in performing the review.<sup>38.33</sup> Examples of documentation are review programs, analyses, memoranda, and letters of representation. Documentation may be in paper or electronic form, or other media. The quantity, type, and content of the documentation are matters of the accountant's professional judgment.

~~.52~~ .49 Because of the different circumstances in individual engagements, it is not possible to specify the form or content of the documentation the accountant should prepare. However, the documentation should include any findings or issues that in the accountant's judgment are significant, for example, 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. In addition, the documentation should (a) enable members of the engagement team with supervision and review responsibilities to understand the nature, timing, extent, and results of the review procedures performed; (b) identify the engagement team member(s) who performed and reviewed the work; and (c) identify

---

<sup>38.33</sup> However, an accountant would not be precluded from supporting his or her conclusions by other means in addition to the documentation.

the evidence the accountant obtained in support of the conclusion that the interim financial information being reviewed agreed or reconciled with the accounting records (see paragraph ~~1817~~*d* of this section).

### **Effective Date**

~~53~~.50 This section is effective for interim periods within fiscal years beginning after December 15, ~~2002~~**2008**. Earlier application of the provisions of this section is permitted.

## **Appendix A—Analytical Procedures the Accountant May Consider Performing When Conducting a Review of Interim Financial Information**

### ***54.51***

A1. Analytical procedures are designed to identify relationships and individual items that appear to be unusual and that may reflect a material misstatement of the interim financial information. These procedures may consist of comparing interim financial information with prior period information, actual interim results with anticipated results (such as budgets or forecasts), and recorded amounts or ratios with expectations developed by the accountant. Examples of analytical procedures an accountant may consider performing in a review of interim financial information include:

- Comparing current interim financial information with anticipated results, such as budgets or forecasts (for example, comparing tax balances and the relationship between the provision for income taxes 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).<sup>1</sup>
- 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

---

<sup>1</sup> The accountant should exercise caution when comparing and evaluating current interim financial information with budgets, forecasts, or other anticipated results because of the inherent lack of precision in estimating the future and susceptibility of such information to manipulation and misstatement by management to reflect desired interim results

sales, assets by type as a percentage of total assets, and percentage of change in sales to percentage of change in receivables.

- Comparing disaggregated data. The following are examples of how data may be disaggregated.
  - By period, for example, financial statement items disaggregated into quarterly, monthly, or weekly amounts.
  - By product line or operating segment.
  - By location, for example, subsidiary, division, or branch.

A2. 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.

## **Appendix B—Unusual or Complex Situations to Be Considered by the Accountant When Conducting a Review of Interim Financial Information**

**.55.52**

B1. The following are examples of situations about which the accountant would ordinarily 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
- Computation of earnings per share in a complex capital structure
- 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,<sup>1</sup> 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

---

<sup>1</sup> The accountant may wish to refer to the guidance in section 342, *Auditing Accounting Estimates*, paragraphs .05–.06.

## Appendix C—Illustrative Management Representation Letters for a Review of Interim Financial Information

### .56.53

C1. The following illustrative management representation letters, which relate to a review of interim financial information prepared in conformity with generally accepted accounting principles, are presented for illustrative purposes only. The first letter is designed to be used in conjunction with the representation letter provided by management in connection with the audit of the financial statements of the prior year. The second illustrative representation letter may be used independently of any other representation letter.

C2. The introductory paragraph of the letters should specify the financial statements and periods covered by the accountant's report, for example, "condensed balance sheets of XYZ Company as of June 30, 20X1 and 20X2, and the related condensed statements of income and retained earnings and cash flows for the three-month and nine-month periods then ended." The written representations to be obtained should be based on the circumstances of the engagement and the nature and basis of presentation of the financial statements being reviewed. Appendix B, "Additional Illustrative Representations," of section 333, *Management Representations*, presents examples of such representations. Illustrative representations for specialized industries are presented in AICPA Audit and Accounting Guides.

C3. If matters exist that should be disclosed to the accountant, they should be indicated by modifying the related representation. For example, if an event subsequent to the date of the balance sheet has been disclosed in the interim financial statements, the final paragraph could be modified as follows: "To the best of our knowledge and belief, except as discussed in note X to the financial statements, no events have occurred. . . ." In appropriate circumstances, item 10 of the second illustrative representation letter could be modified as follows: "The company has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities, except for our plans to dispose of segment A, as disclosed in note X to the interim financial information, which are discussed in the minutes of the June 7, 20X2, meeting of the board of directors (or disclosed to you at our meeting on June 15, 20X2)." Similarly, if management has received a communication regarding an allegation of fraud or suspected fraud, item 7 of the first illustrative representation letter and item 9 of the second illustrative representation letter could be modified as follows: "Except for the allegation discussed in the minutes of the December 7, 20X1, meeting of the board of directors (or disclosed to you at our meeting on October 15, 20X1), we have no knowledge of any allegations of fraud or suspected fraud affecting the company received in communications from employees, former employees, analysts, regulators, short sellers, or others."

C4. The qualitative discussion of materiality used in the illustrative letters is adapted from the Financial Accounting Standards Board Statement of Financial Accounting Concepts No. 2, *Qualitative Characteristics of Accounting Information*.

C5. Certain terms are used in the illustrative letters that are described elsewhere in authoritative literature. Examples are *fraud*, in section 316, *Consideration of Fraud in a Financial Statement Audit*, and *related parties*, in section 334, *Related Parties*, footnote 1). To avoid misunderstanding concerning the meaning of such terms, the accountant may wish to furnish those definitions to management or request that the definitions be included in the written representations.

C6. The illustrative letters assume that management and the accountant have reached an understanding on the limits of materiality for purposes of the written representations. However, it should be noted that a materiality limit would not apply for certain representations, as explained in section 333 paragraph .08.

## **1. Illustrative Short-Form Representation Letter for a Review of Interim Financial Information (Statements)**

*[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 Accountant]*:

We are providing this letter in connection with your review of the *[identification of interim financial information (statements)]* of *[name of entity]* as of *[dates]* and for the *[periods]* for the purpose of determining whether any material modifications should be made to the *[consolidated]* interim financial information (statements) for it (them) to conform with accounting principles generally accepted in the United States of America, **including [indicate the appropriateness of the form and content of interim condensed financial statements (for example, Article 10 of SEC Regulation S-X)]**. We confirm that we are responsible for the fair presentation of the *[consolidated]* interim financial information (statements) in conformity with generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, *[as of (date of accountant's report or completion of review),]* the following representations made to you during your review.

1. The interim financial information (statements) referred to above has (have) been prepared and presented in conformity with generally accepted accounting principles applicable to interim financial information.

2. We have made available to you:

a. All financial records and related data.

b. All 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. All significant board and committee actions are included in the summaries.

3. We believe that the effects of any uncorrected financial statement misstatements aggregated by you during the current review engagement and pertaining 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 information (statements) ~~taken~~ as a whole.<sup>1</sup>

***4. We acknowledge our responsibility to establish controls that are sufficient to provide a reasonable basis for the preparation of reliable interim financial information in accordance with generally accepted accounting principles.***

45. There are no significant deficiencies and material weaknesses, in the design or operation of ~~internal controls which could adversely affect the company's ability to record, process, summarize, and report interim financial data.~~

56. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

67. We have no knowledge of any fraud or suspected fraud affecting the company involving:

a. Management;

b. Employees who have significant roles in internal control; or

c. Others where the fraud could have a material effect on the interim financial information.

78. We have no knowledge of any allegations of fraud or suspected fraud affecting the company in communications from employees, former employees, analysts, regulators, short sellers, or others.

---

<sup>1</sup> If a summary of uncorrected misstatements is unnecessary because no uncorrected misstatements were identified, this representation should be eliminated.

89. 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 *[prior year-end date]*. We believe that representations A, B, and C within that representation letter do not apply to the interim financial information (statements) referred to above. We now confirm those representations 1 through X, as they apply to the interim financial information (statements) referred to above, and incorporate them herein, with the following changes:

*[Indicate any changes.]*

910. *[Add any representations related to new accounting or auditing standards that are being implemented for the first time.]*

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

---

*[Name of chief executive officer and title]*

---

*[Name of chief financial officer and title]*

---

*[Name of chief accounting officer and title]*

## **2. Illustrative Representation Letter for a Review of Interim Financial Information (Statements)**

*[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 Accountant]*:

We are providing this letter in connection with your review of the *[identification of interim financial information (statements)]* of *[name of entity]* as of *[dates]* and for the *[periods]* for the purpose of determining whether any material modifications should be made to the *[consolidated]* interim financial information (statements) for it (them) to conform with accounting principles generally accepted in the United States of America, **including [indicate the appropriateness of the form and content of interim**

**condensed financial statements (for example, Article 10 of Regulation S-X)].** We confirm that we are responsible for the fair presentation of the [*consolidated*] interim financial information (statements) in conformity with generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, [*as of (date of accountant's report or the completion of the review)*], the following representations made to you during your review.

1. The interim financial information (statements) referred to above has (have) been prepared and presented in conformity with generally accepted accounting principles applicable to interim financial information (statements).
2. We have made available to you-
  - a. All financial records and related data.
  - b. All 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. All significant board and committee actions are included in the summaries.
3. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the interim financial information.
5. We believe that the effects of any uncorrected financial statement misstatements aggregated by you during the current review engagement and pertaining 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 information (statements) ~~taken~~ as a whole.<sup>+ 2</sup>
6. ***We acknowledge our responsibility to establish controls that are sufficient to provide a reasonable basis for the preparation of reliable interim financial information in accordance with generally accepted accounting principles.***

---

<sup>+2</sup> If a summary of uncorrected misstatements is unnecessary because no uncorrected misstatements were identified, this representation should be eliminated.

67. There are no significant deficiencies and material weaknesses, in the design or operation of internal controls which could adversely affect the company's ability to record, process, summarize, and report interim financial data.

78. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

89. We have no knowledge of any fraud or suspected fraud affecting the company involving:

a. Management;

b. Employees who have significant roles in internal control; or

c. Others where the fraud could have a material effect on the interim financial information.

910. We have no knowledge of any allegations of fraud or suspected fraud affecting the company received in communications from employees, former employees, analysts, regulators, short sellers, or others.

1011. The company has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

1112. The following have been properly recorded or disclosed in the interim financial information (statements):

a. Related-party transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

b. Guarantees, whether written or oral, under which the company is contingently liable.

c. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with the AICPA's Statement of Position 94-6, *Disclosure of Certain Significant Risks and Uncertainties (AICPA, Technical Practice Aids, ACC sec. 10,640)*. [*Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.*]

1213. There are no:

a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the interim financial information (statements) or as a basis for recording a loss contingency.

b. Unasserted claims or assessments that are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*.

c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.

~~1314~~. The company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets; nor has any asset been pledged as collateral.

~~1415~~. The company has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

~~1516~~. [*Add additional representations that are unique to the entity's business or industry. See paragraph .21 of this section and section 333, Management Representations, paragraph .17.*]

~~1617~~. [*Add any representations related to new accounting or auditing standards that are being implemented for the first time.*]

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

---

[*Name of chief executive officer and title*]

---

[*Name of chief financial officer and title*]

---

[*Name of chief accounting officer and title*]