

CICA handbook – assurance highlight summary no. 9 April 2001

HIGHLIGHT SUMMARY

(Note: New Handbook material or changes in existing material are identified in each HANDBOOK REVISIONS RELEASE.)

Auditor review of interim financial statements, Section 7050

This new Section deals with an engagement for a review of an entity's unaudited interim financial statements by its auditor (an "interim review").

Like a review engagement performed in accordance with GENERAL REVIEW STANDARDS, Section 8100, and REVIEW OF FINANCIAL STATEMENTS, Section 8200, an interim review consists principally of applying analytical procedures to financial data, and making enquiries of, and having discussions with, persons responsible for the entity's financial and accounting matters. However, the new Section notes that an interim review differs in several respects from a review performed in accordance with Sections 8100 and 8200 by a public accountant who is not the auditor of the entity:

- The purpose of an interim review is to assist the audit committee or equivalent ("audit committee") in discharging its responsibilities for review of the interim statements, rather than to render assurance by way of a general purpose report.
- The entity's auditor possesses (or must acquire), and updates in the course of the interim review, knowledge of the entity's business and internal control; a public accountant who is not the entity's auditor does not ordinarily possess such knowledge.
- The requirement for a public entity to issue quarterly statements on a timely basis would not normally provide the auditor sufficient time to carry out a review in accordance with Sections 8100 and 8200.
- The auditor's communication in an interim review is a special purpose report, restricted to use by the audit committee. In contrast, a public accountant's review engagement report issued in accordance with Section 8200 is ordinarily unrestricted.
- The auditor's communication in an interim review engagement may be either oral or written, unlike the review engagement report issued in accordance with Section 8200, which must be written.

Consequently, paragraph 8100.01 has been amended, Section 8200 has been renamed PUBLIC ACCOUNTANT'S REVIEW OF FINANCIAL STATEMENTS, and AuG-20 has been renamed "Performance of a review of financial statements in accordance with Sections 8100 and 8200" to make it clear that they do not apply to a review of unaudited interim financial statements performed in accordance with Section 7050.

The new Section also:

- emphasizes the importance of agreeing on the terms of engagement;
- sets out a list of procedures the entity's auditor would ordinarily perform in an interim review;
- notes the need for the auditor to consider whether completion of an interim review is precluded if the entity's internal control appears to contain deficiencies so significant the entity's auditor cannot apply effectively his or her knowledge of accounting and financial reporting practices to the interim financial statements;
- sets out a process for resolving matters arising from an interim review;
- notes the need for the auditor to report the nature and extent of his or her involvement with the statements and the results of the review, whether the communication is oral or written; and
- sets out matters arising from the interim review that the auditor may wish to report to and/or discuss with the audit committee.

The new Recommendations apply to an auditor's communication, in either oral or written form, made on or after October 1, 2001.

The auditor's involvement with prospectuses and other offering documents, Section 7100

This Section has been amended to reflect the issue of new Section 7050. The main changes to Section 7100 are:

- to remove the procedures for a review of unaudited interim financial statements included in a prospectus, and require a review of such statements to be performed in accordance with Section 7050;

- to conform the requirements for both the comfort letter to securities regulatory authorities on unaudited interim financial statements and the suggested wording of a comfort letter on a preliminary prospectus, to the wording used in Section 7050;
- to conform the examples of comfort letters and consent letters issued to securities regulatory authorities to the wording used in a written interim review report issued in accordance with Section 7050, and to move these examples to new Guideline AuG-30 (which also includes several additional examples of consent and comfort letters required under securities legislation); and
- to conform Section 7100 to changes in securities legislation.

Assurance and related services guideline

- The auditor's consent and comfort in connection with securities offering documents (AuG-30)

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