SPECIALIZED AREAS
SECTION 7060
auditor review of interim financial statements

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving CAS 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*.

Appendix 2

(Ref: Para. A28)

Examples of Interim Review Procedures

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

Analytical Procedures the Auditor May Consider Performing in an Interim Review

- Comparing current interim financial statements with expected results, such as budgets or forecasts, taking into account the susceptibility of budgets, forecasts or other anticipated results to manipulation by management to reflect desired interim results and the inherent lack of precision in estimating the future. For example, comparing tax balances, and the relationship between the provision for income taxes and pretax income in the current interim financial statements with corresponding information in budgets (using expected rates) and financial information for prior periods.
- Comparing current interim financial information with relevant non-financial information.
- Comparing ratios and indicators for the current interim period with expectations based on prior periods. For example, performing gross profit analysis by product line and operating segment using elements of the current interim financial information and comparing the results with corresponding information for prior periods. Examples of key ratios and indicators are the current ratio, receivable turnover or days' sales outstanding, inventory turnover, depreciation to average fixed assets, debt to equity, gross profit percentage, net income percentage and plant operating rates.
- Comparing ratios and indicators with those of entities in the same industry.
- Comparing relationships among elements in the current interim financial statements with corresponding relationships in prior periods (for example, expense by type as a percentage of sales, assets by type as a percentage of total assets, and percentage of change in sales with percentage of change in receivables).
- Comparing disaggregated data:
  - By period, such as financial statement items disaggregated into quarterly, monthly, or weekly amounts.
  - By product line or operating segment.
  - By location (for example, subsidiary, division or branch).

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

Inquiries and Other Review Procedures that an Auditor May Perform

- Inquiring about:
  - The effectiveness of internal control, including the control environment and control systems, for the preparation of both annual and interim financial statements.
  - Significant deficiencies in the design or operation of internal control that could adversely affect the issuer's ability to record, process, summarize and report financial information.
  - Whether any significant changes in internal control, as it relates to the preparation of both annual and interim financial statements, have occurred since the most recent financial statement audit or review of interim financial statements (including changes in the entity's policies, procedures and personnel), as well as the nature and extent of such changes.
- Based on observation and inquiry, considering whether significant changes in internal control may have introduced significant deficiencies in the design of internal control.
- Reading the minutes of meetings of shareholders, the board of directors and committees of the board of directors to identify matters that may affect the interim financial statements.

- Obtaining evidence that the interim financial statements are in agreement with, or have been reconciled to, the accounting records. For example, the auditor may compare the interim financial statements to the accounting records, such as the general ledger, a consolidating schedule derived from the accounting records or other supporting data in the entity's records. In addition, the auditor would consider inquiring of management as to the reliability of the records to which the interim financial statements were compared or reconciled.
- Reading documentation of the preceding year's audit, and of reviews of prior interim period(s) of the current year and corresponding quarterly and year-to-date interim period(s) of the preceding year, to the extent necessary to enable the auditor to identify matters that may affect the current interim financial statements, taking into consideration:
  - Any corrected material misstatements;
  - Matters identified in any summary of uncorrected misstatements;
  - The risks of material misstatement due to fraud, including the risk of management override of controls; and
  - Significant financial accounting and reporting matters that may be of continuing significance, such as deficiencies in internal control.
- Considering the results of any audit procedures performed with respect to the current year's financial statements.
- Obtaining reports from other auditors, if any, who have been engaged to perform a review of the interim financial statements of significant components of the reporting entity or of its subsidiaries, joint ventures or other investees or, if such reports have not been issued, making inquiries of the other auditors.
- Inquiring of officials having responsibility for financial and accounting matters about:
  - Changes in the entity's accounting practices.
  - Significant changes in the entity's business activities.
  - Unusual or significant events and transactions occurring, and estimates made, during the interim period, and how such events, transactions and estimates have been reported in the interim financial statements.
  - Significant transactions occurring or recorded in the first several days and the last several days of the interim period, and in the first several days of the next interim period.
  - The status of uncorrected misstatements identified during the previous audit and interim review (that is, whether adjustments had been recorded subsequent to the previous audit or interim review and, if so, the amounts recorded and the period in which such adjustments were recorded).
  - Management's knowledge of any actual, suspected or alleged fraud or illegal or possibly illegal acts affecting the entity that involve management, employees who have significant roles in internal control, or others where the fraud or illegal acts could have a material effect on the financial statements.
  - Significant journal entries and other adjustments.
  - Events subsequent to the date of the interim financial statements up to the date of the auditor's communication that would have a material effect on such statements.
  - Whether:

- The interim financial statements are prepared in accordance with the applicable financial reporting framework.

- The statements contain any known non-trivial errors.

- The entity is in compliance with securities and other regulatory requirements, including new or changed pronouncements or other regulations.

- The entity has received any communications from regulatory authorities.

Events and Transactions about Which the Auditor May Inquire of Management

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

- Changes in litigation, or contingencies including guarantees or indemnities.
- Changes in major contracts with customers or suppliers.
- Trends and developments affecting accounting estimates, such as allowances for bad debts and excess or obsolete inventories, provisions for warranties and employee benefits, and realization of unearned income and deferred charges.
- Compliance with debt covenants.
- Changes in related parties or significant new related party transactions.
- Material off-balance sheet transactions, special-purpose entities and other equity investments.
- Issuance of debt or capital stock with unusual terms that could affect balance sheet or income statement classification.
- Other significant, unusual or infrequently occurring transactions.
- Events subsequent to the date of the interim financial statements, up to the date of the auditor's communication, that could have a material effect on such statements.
