

# KAEG-I [INTL VERSION 2024]: ISRE 2410 Review of Interim Financial Information performed by the Independent Auditor of the Entity

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# **ISRE 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity**

[View the Full Chapter for this Standard](#)

# ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

(Effective for reviews of interim financial information for periods beginning on or after December 15, 2006)

International Standard on Review Engagements (ISRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, should be read in the context of the *Preface to the International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements*.

## Introduction, General Principles, Objective

### International Standards on Review Engagements: ISRE 2410.01-09

#### Introduction

1. The purpose of this International Standard on Review Engagements (ISRE) is to establish standards and provide guidance on the auditor's professional responsibilities when the auditor undertakes an engagement to review interim financial information of an audit client, and on the form and content of the report. The term "auditor" is used throughout this ISRE, not because the auditor is performing an audit function but because the scope of this ISRE is limited to a review of interim financial information performed by the independent auditor of the financial statements of the entity.

2. For purposes of this ISRE, interim financial information is financial information that is prepared and presented in accordance with an applicable financial reporting framework<sup>1</sup> and comprises either a complete or a condensed set of financial statements for a period that is shorter than the entity's financial year.

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<sup>1</sup> For example, International Financial Reporting Standards as issued by the International Accounting Standards Board

**3. The auditor who is engaged to perform a review of interim financial information should perform the review in accordance with this ISRE.** Through performing the audit of the annual financial statements, the auditor obtains an understanding of the entity and its environment, including its internal control. When the auditor is engaged to review the interim financial information, this understanding is updated through inquiries made in the course of the review, and assists the auditor in focusing the inquiries to be made and the analytical and other review procedures to be applied. A practitioner who is engaged to perform a review of interim financial information, and who is not the auditor of the entity, performs the review in accordance with ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*. As the practitioner does not ordinarily have the same understanding of the entity and its environment, including its internal control, as the auditor of the entity, the practitioner needs to carry out different inquiries and procedures to meet the objective of the review.

3a. This ISRE is directed towards a review of interim financial information by an entity's auditor. However, it is to be applied, adapted as necessary in the circumstances, when an entity's auditor undertakes an

engagement to review historical financial information other than interim financial information of an audit client.\*

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\* Paragraph 3a and footnote 4 were inserted in this ISRE in December 2007 to clarify the application of the ISRE.

## General Principles of a Review of Interim Financial Information

**4. The auditor should comply with the ethical requirements relevant to the audit of the annual financial statements of the entity.** These ethical requirements govern the auditor's professional responsibilities in the following areas: independence, integrity, objectivity, professional competence and due care, confidentiality, professional behavior, and technical standards.

**5. The auditor should implement quality control procedures that are applicable to the individual engagement.** The elements of quality control that are relevant to an individual engagement include leadership responsibilities for quality on the engagement, ethical requirements, acceptance and continuance of client relationships and specific engagements, assignment of engagement teams, engagement performance, and monitoring.

**6. The auditor should plan and perform the review with an attitude of professional skepticism, recognizing that circumstances may exist that cause the interim financial information to require a material adjustment for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.** An attitude of professional skepticism means that the auditor makes a critical assessment, with a questioning mind, of the validity of evidence obtained and is alert to evidence that contradicts or brings into question the reliability of documents or representations by management of the entity.

## Objective of an Engagement to Review Interim Financial Information

7. The objective of an engagement to review interim financial information is to enable the auditor to express a conclusion whether, on the basis of the review, anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with an applicable financial reporting framework. The auditor makes inquiries, and performs analytical and other review procedures in order to reduce to a moderate level the risk of expressing an inappropriate conclusion when the interim financial information is materially misstated.

8. The objective of a review of interim financial information differs significantly from that of an audit conducted in accordance with International Standards on Auditing (ISAs). A review of interim financial information does not provide a basis for expressing an opinion whether the financial information gives a true and fair view, or is presented fairly, in all material respects, in accordance with an applicable financial reporting framework.

9. A review, in contrast to an audit, is not designed to obtain reasonable assurance that the interim financial information is free from material misstatement. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review

procedures. A review may bring significant matters affecting the interim financial information to the auditor's attention, but it does not provide all of the evidence that would be required in an audit.

## How do we comply with the Standards?

[ISA | KAEGHDWC]

### 1 Interim Review | Determine whether an interim review is applicable [ISA | 4209]

#### What do we do?

Determine whether an interim review in accordance with [ISRE 2410](#) is applicable. When engaged to perform a review of a non-audit client, perform the review in accordance with the ISRE 2400 (Revised).

#### Why do we do this?

Depending on the circumstances of the engagement, [ISRE 2410](#) may or may not be applicable. We understand the relevant engagement circumstances to conduct our engagement in accordance with the appropriate standard.

### Execute the Audit

[What is interim financial information?](#) [ISA | 4209.1300]

Interim financial information is financial information that is prepared and presented in accordance with an applicable financial reporting framework that comprises either a complete or a condensed set of financial statements, and covers a period shorter than the entity's financial year.

When the information is a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, the phrase "preparation and presentation" in this topic represents "preparation and fair presentation".

[What is condensed interim financial information?](#) [ISA | 4209.1400]

Condensed interim financial information is presented in considerably less detail than complete financial statements, which are intended to present financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.

For this reason, it is intended to be read in conjunction with the entity's most recent complete financial statements that include all the disclosures required by generally accepted accounting principles.

[When may we perform an interim review in accordance with ISRE 2410?](#) [ISA | 4209.14685]

We perform an interim review in accordance with [ISRE 2410](#) when we are also the auditor of the entity.

We also perform an interim review in accordance with ISRE 2410 in the following circumstances:



- for the interim financial information of a component, where the component auditor performs procedures to support the interim review for the group engagement team when the component auditor is also the auditor of the component for local reporting purposes
- for the annual financial information of a component to support the audit opinion of the group engagement team when the component auditor is also the auditor of the component for local reporting purposes
- for the interim financial information of an audit client where we were the appointed auditor in the previous year and continue to be the appointed auditor as of the date of the interim financial information, but expect that we will be replaced as auditors by the end of the financial year.

#### What if we are not the entity's auditor? [ISA | 4209.14580]

When we are not the auditor of the entity, we cannot perform an interim review in accordance with [ISRE 2410](#). However, we may perform a review in accordance with [ISRE 2400](#). [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_XLNUK\\_IFAC18\\_ISRE\\_2400](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_XLNUK_IFAC18_ISRE_2400).

#### What if we are performing a review of historical financial information? [ISA | 4209.14581]

We may also perform a review in accordance with [ISRE 2410](#) (adapted as appropriate) when we undertake an engagement to review historical financial information of an audit client other than interim financial information.

#### What is the difference between an interim review and an audit? [ISA | 4209.14597]

Below is a list of key differences between an interim review and an audit:

	Interim Review	Audit
<b>Level of assurance</b>	Obtain "Limited" assurance, which defined as meaningful level of assurance but lower than reasonable assurance	Obtain "Reasonable" assurance, which defined as high level of assurance but not absolute assurance
<b>Objective</b>	To provide us with a basis to report on whether any matters came to our attention that caused us to believe that the interim financial information is materially misstated	To gather audit evidence to reduce the risks of material misstatement to an acceptable level.
<b>Types of procedures</b>		
<b>Risk assessment</b>	Use our risk assessment from our previous audit and information from our interim review procedures to inform and	Perform risk assessment procedures to identify and respond to risks of material misstatement.

	direct our planned interim review procedures.	
<b>Inquiry/ Analytical</b>	May limit our review procedures to inquiries and analytical procedures alone. We normally do not corroborate management's responses, but may choose to.	Do not rely on inquiries alone.  We use analytical procedures during risk assessment, which may resemble those in an interim review. We may also use analytical procedures as a substantive procedure, but they differ in design and precision from those used in an interim review.
<b>Control testing</b>	We do not gather evidence to reduce the risks of material misstatement (RMMs), testing controls (and reducing control risk) is not relevant.	We evaluate the design and implementation of certain controls and may perform tests of operating effectiveness to reduce the extent of audit evidence from substantive procedures.
<b>Substantive Procedures</b>	We do not perform substantive tests to gather audit evidence to reduce the risks of material misstatement. Rather, we may perform further procedures if a matter comes to our attention that may materially misstate the interim financial information.	We perform substantive audit procedures which consists of tests of details and/or substantive analytical procedures.

## 2 Interim Review | Comply with interim review general principles and responsibilities [ISA | 4214]

### What do we do?

Comply with the general principles and responsibilities, including engagement partner responsibilities, when performing an interim review

### Why do we do this?

As auditors, we are not infallible, but we may be held liable for negligence, bad faith or dishonesty. To minimize this risk, we perform an interim review in accordance with the standards, possess the degree of skill commonly possessed by other auditors, are independent and ethical, and exercise professional skepticism.

## Execute the Audit

What are the relevant general principles and responsibilities of an interim review? [ISA | 4214.1400]

The following table illustrates the relevant general principles and responsibilities and how we comply with them for an interim review:

General principle/ responsibility	What does it mean?	How do we comply?
Implementation of relevant elements of quality management procedures, including engagement partner responsibilities	The relevant elements of quality management procedures include leadership responsibilities for quality on the engagement, acceptance and continuance of client relationships and specific engagements, assignment of engagement teams, engagement performance and monitoring.	<p>We implement quality management procedures that are applicable to the individual engagement.</p> <p>Refer to the following activities for further information:</p> <ul style="list-style-type: none"> <li>- <a href="#">'Take overall responsibility for managing and achieving quality on the audit'</a></li> <li>- <a href="#">'Perform procedures over client and engagement continuance'</a></li> <li>- <a href="#">'Determine sufficient and appropriate engagement resources are assigned or made available'</a></li> <li>- <a href="#">'Direct and supervise the engagement team and review their work'</a></li> <li>- <a href="#">'Consider the results of the firm's monitoring and remediation process'</a>.</li> </ul> <p>These activities are adapted for an interim review.</p>
Compliance with ethical requirements, including independence requirements	Ethical and independence requirements govern our professional responsibilities in the following areas: integrity, objectivity, professional competence and due care, confidentiality,	We comply with the ethical requirements, including independence requirements, relevant to the audit of the annual financial statements.

	professional behavior and technical standards.	Refer to activity ' <a href="#">Remain ethical and independent during our audit engagements</a> ' for further information, adapted for an interim review.
Implementation of relevant quality control review procedures	This includes determining the necessary level of quality control review for the engagement based on the nature of the engagement.	Refer to activities ' <a href="#">The engagement partner identifies the necessary level of quality control review</a> ' and ' <a href="#">The engagement partner identifies whether additional levels of review are necessary</a> ' to determine whether an EQC reviewer, LSQC reviewer (only applicable to AICPA and ISA engagements), or other reviewer is applicable to the interim review engagement.  Additionally, refer to the following activities for direction in performing EQC reviews and LSQC reviews:  ' <a href="#">The EQC reviewer evaluates significant judgements made and conclusions reached in an interim review</a> ', and  ' <a href="#">The LSQC reviewer performs an LSQC review</a> ' (only applicable to AICPA and ISA engagements).  These activities are adapted for an interim review.
Planning and performing an interim review with an attitude of professional skepticism	An attitude that includes a questioning mind, being alert to conditions that may indicate possible misstatement to the interim financial information	In principle there is no difference between the professional skepticism applicable in an audit engagement and an interim review and therefore the

	and performing a critical assessment of the results of review procedures. This includes being mindful of contradictory information.	activities we perform to comply are no different.  We perform activities in accordance with ' <a href="#">Plan and perform work with due professional care</a> ', adapted for an interim review.
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The engagement partner takes responsibility for complying with these general principles and responsibilities in an interim review and conducting the review engagement in accordance with applicable KPMG requirements, professional standards, and legal and regulatory requirements.

## 3 Interim Review | Perform certain procedures when using SATs and/or EURs in an interim review [ISA | 8005]

### What do we do?

IF using software audit tools (SATs) and/or end-user routines (EURs) in an interim review, THEN perform certain procedures.

### Why do we do this?

The use of SATs and/or EURs in an interim review enables us to leverage technology to enhance interim review effectiveness. When we use a SAT and/or an EUR in an interim review, we are relying on its design and consistent operation to produce output that is complete and accurate.

## Execute the audit

[What are examples of SATs used in an interim review?](#) [ISA | 8005.158994]

The following table illustrates examples of different SATs we may use in an interim review:

Type of SATs	Examples
Routine-enabling applications  Routine-enabling applications represent applications that contain end-user computing functionality that enables end-user routines to be developed.	<ul style="list-style-type: none"> <li>• Microsoft Excel®</li> <li>• Microsoft Power BI®</li> <li>• Alteryx®</li> </ul>
Ready-to-use routines	<ul style="list-style-type: none"> <li>• KPMG Clara workflow KCw - Advanced Capabilities</li> </ul>

<p>Ready-to-use routines represent individual software audit tools, separate from the routine-enabling applications on which they run (if any), that typically use a series of formulas, functions, or instructions that are not visible to the end-user and are typically locked to prohibit end-users from accessing the program code.</p>	<ul style="list-style-type: none"> <li>• DataSnipper Excel Add-in®</li> </ul>
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#### What are examples of EURs used in an interim review? [ISA | 8005.158995]

Examples of end-user routines include engagement specific Excel® macros or Alteryx® scripts. For example, automating the match of recorded amounts to interim financial information or clean up client provided reports (e.g. check for missing and blank fields for numeric data fields, check for duplicate fields, etc.).

#### What do we do when we use SATs and/or EURs in an interim review? [ISA | 8005.157287]

When we use SATs and/or EURs to provide evidence or generate results that supplement our judgement in an interim review, we perform activity '[Computer assisted audit techniques](#)' and document the procedures performed related to the use of SATs and EURs in the interim review engagement file.

#### Do we create an engagement SAT list for each interim review? [ISA | 8005.158996]

No. A separate engagement SAT list does not need to be created for each interim review as the SATs used in the interim review are included on the SAT list for the audit. We may include a snapshot of the engagement SAT list for the audit, which includes SATs used in the interim review, in the interim review file.

#### What else do we think about when we use end-user routines in an interim review? [ISA | 8005.158998]

The procedures performed over the reliability of the output of the EUR are commensurate with the complexity of the EUR and the evidence we are obtaining, which is different in an interim review as compared to an audit (see activity '[Consider whether each end-user routine is reliable](#)').

When the reliability of the EUR has previously been evaluated (e.g. when the EUR has been used in a previous interim review), our procedures over the EUR may be limited to evaluating that the design remains appropriate and implementing appropriate procedures to evidence the design has not been altered since the prior evaluation.

#### Do we evaluate the relevance and reliability of information used to perform a D&A routine in an interim review? [ISA | 8005.158999]

Yes. We consider the relevance and reliability of the data used in the D&A routine, however inquiry alone may be sufficient to determine the relevance and reliability of the data. We think about how we intend to use the D&A routine and the evidence to be obtained from the interim review when determining the procedures to be performed over the relevance and reliability of the information used in that routine.

#### Do we use D&A routines to match items in an interim review? [ISA | 8005.159000]

Generally, we do not use a D&A item matching routine (e.g. three-way match) in an interim review because this is a substantive audit procedure. Engagement teams think about whether the use of the D&A item matching routine is being performed for the interim review or as an audit procedure being performed during the interim period.

If we use a D&A item matching routine for the interim review, then we perform activities '[Consider untested items](#)' and '[Evaluate outliers when using a matching procedure](#)'. In performing our evaluation, we use our judgement when assessing the results of an item matching procedure used for interim review purposes and any contradictory evidence provided.

## Agreeing the Terms of the Engagement

### International Standards on Review Engagements: ISRE 2410.10-11

#### Agreeing the Terms of the Engagement

**10. The auditor and the client should agree on the terms of the engagement.**

11. The agreed terms of the engagement are ordinarily recorded in an engagement letter. Such a communication helps to avoid misunderstandings regarding the nature of the engagement and, in particular, the objective and scope of the review, management's responsibilities, the extent of the auditor's responsibilities, the assurance obtained, and the nature and form of the report. The communication ordinarily covers the following matters:

- The objective of a review of interim financial information.
- The scope of the review.
- Management's responsibility for the interim financial information.
- Management's responsibility for establishing and maintaining effective internal control relevant to the preparation of interim financial information.
- Management's responsibility for making all financial records and related information available to the auditor.
- Management's agreement to provide written representations to the auditor to confirm representations made orally during the review, as well as representations that are implicit in the entity's records.
- The anticipated form and content of the report to be issued, including the identity of the addressee of the report.
- Management's agreement that where any document containing interim financial information indicates that the interim financial information has been reviewed by the entity's auditor, the review report will also be included in the document.

An illustrative engagement letter is set out in Appendix 1 to this ISRE. The terms of engagement to review interim financial information can also be combined with the terms of engagement to audit the annual financial statements.

## How do we comply with the Standards? [ISA | KAEGHDWC]

# 1 Interim Review | Perform pre-engagement procedures for the interim review [ISA | 4210]

## What do we do?

Perform pre-engagement procedures for the interim review

## Why do we do this?

As we start our interim review we perform pre-engagement activities. These activities provide information that helps us:

- determine whether we can continue the client relationship and accept the interim review engagement; and
- establish a clear understanding of the terms of our interim review engagement with the client.

## Execute the Audit

[What pre-engagement procedures do we perform for the interim review?](#) [ISA | 4210.14758]

We perform the following pre-engagement procedures when performing an interim review:

[Determine whether the financial reporting framework is acceptable;](#)

[Agree the terms of the interim review in an engagement letter.](#)

In addition to the above, we also perform the activity '[Perform procedures over client and engagement continuance](#)'. While this activity may include language specific to an audit engagement, the principles may be applicable in the circumstances of an interim review.

[Can we accept an interim review engagement when our preliminary knowledge indicates there is a management imposed scope limitation?](#) [ISA | 4210.14759]

No. We do not accept an engagement to review interim financial information if our preliminary knowledge indicates that we would be unable to complete the review. This is because we already know there will be a limitation on the scope of our review imposed by management.

## 1.1 Interim Review | Determine whether the financial reporting framework is acceptable [ISA | 4211]

### What do we do?

Determine whether the financial reporting framework applied in the preparation of the interim financial information is acceptable before accepting an interim review engagement.

### Why do we do this?



Without an acceptable financial reporting framework, management does not have an appropriate basis for the preparation of the interim financial information and we do not have a suitable criteria for reviewing the interim financial information.

## Execute the Audit

How do we determine whether the financial reporting framework is acceptable for an interim review? [ISA | 4211.1400]

We determine whether the financial reporting framework is acceptable for an interim review this through our client and engagement continuance process (see '[Perform procedures over client and engagement continuance](#)' and '[Meet the preconditions of the audit](#)').

How do we determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable?

We determine the appropriateness of the financial reporting framework to be applied in preparing the financial statements through CEAC, as part of our client and engagement continuance process.

Factors that are relevant to this determination include the following.

Relevant factors	Examples
Nature of the entity	Whether it is a business enterprise, a public sector entity or a not for profit organization.
Purpose of the financial statements	Whether they are prepared to meet the common financial information needs of a wide range of users or the financial information needs of specific users.
Nature of the financial statements	Whether the financial statements are a complete set of financial statements or a single financial statement
Law or regulation prescribes the applicable financial reporting framework	Whether local laws or regulations determine the applicable financial reporting framework

What if the financial reporting framework is unacceptable for an interim review? [ISA | 4211.14609]

If the financial reporting framework is not acceptable, we will not accept the engagement, unless required by law or regulation (except as provided in ISA 210.19).

## 1.2 Interim Review | Agree terms of the interim review in an engagement letter [ISA | 4213]

## What do we do?

Agree the terms of the interim review in an engagement letter.

## Why do we do this?

Agreeing to the terms of the interim review engagement and recording these terms in an engagement letter helps to avoid misunderstandings regarding the nature of the engagement and, in particular, the objective and scope of the review, management's responsibilities, the extent of our responsibilities, the assurance obtained and the nature and form of any reports.

## Execute the Audit

[What additional procedures do we perform for multi-firm engagements?](#) [ISA | 4213.8935]

Certain technologies are hosted in third-party cloud environments, such as the KPMG Clara workflow. In addition, engagement teams may use third-party service providers within and outside of their home country (e.g. offshore IT support).

If multi-firm engagements intend to host and use client data in the cloud and to permit access by third party service providers to such data, originating engagements team and participating engagement teams determine if the engagement terms allow them to do so.

Refer to the audit activity '[Establish an understanding of the terms of the audit](#)' for further information regarding additional procedures for originating engagement teams and participating engagement teams in a multi-firm engagement, adapted as necessary for an interim review.

[How do we agree and record the terms of the interim review?](#) [ISA | 4213.1300]

We agree and record the terms of the interim review in an engagement letter. See [Chapter 9 of the Global Quality and Risk Management Manual](#) <https://www.gqrm-prod.kworld.kpmg.com/G/0/Content/81> (GQ&RMM) for additional considerations to be applied together with any local policies, procedures and guidance. Refer to your local member firm engagement letter templates.

In the absence of a local country engagement letter template, we may refer to [Appendix 1 of ISRE 2410](#) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_XLNUK\\_IFAC18\\_ISRE\\_2410\\_APPX1](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_XLNUK_IFAC18_ISRE_2410_APPX1) for an example of an interim review engagement letter.

[Can the terms of the interim review be included in the audit engagement letter?](#) [ISA | 4213.1400]

Yes, the terms of the interim review can may be included in the audit engagement letter. The terms of the interim review are usually established in conjunction with the establishment of the terms of the annual audit and included in a combined engagement letter.

[What terms of the interim review do we include in the engagement letter?](#) [ISA | 4213.1500]

We ordinarily include the following terms of an interim review in the engagement letter:

- the objective of a review
- the scope of the review
- management's responsibility for the interim financial information
- management's responsibility for establishing and maintaining effective internal control relevant to the preparation of interim financial information

- management's responsibility for making all financial records and related information available to us
- management's agreement to provide written representations to us to confirm representations made orally during the review, as well as representations that are implicit in the entity's records
- the anticipated form and content of the report to be issued, including the identity of the addressee of the report
- management's agreement that where any document containing interim financial information indicates that the interim financial information has been reviewed by us, the review report will also be included in the document.

[Where do we file the engagement letter?](#) [ISA | 4213.158372]

We include the signed engagement letter and any other documents relevant to understanding the terms of the interim review to the interim review file and/or to the current year audit file. If the engagement letter relevant to the interim review is included in the current year audit file, we include a reference in the interim review file to the relevant documents in the audit file.

## Understanding the Entity and its Environment, Including its Internal Control

### International Standards on Review Engagements: ISRE 2410.12-18

#### Procedures for a Review of Interim Financial Information

### Understanding the Entity and its Environment, Including its Internal Control

**12. The auditor should have an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both annual and interim financial information, sufficient to plan and conduct the engagement so as to be able to:**

- (a) **Identify the types of potential material misstatement and consider the likelihood of their occurrence; and**
- (b) **Select the inquiries, analytical and other review procedures that will provide the auditor with a basis for reporting whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework.**

13. As required by ISA 315 (Revised), *Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*, the auditor who has audited the entity's financial statements for one or more annual periods has obtained an understanding of the entity and its environment, including its internal control, as it relates to the preparation of annual financial information that was sufficient to conduct the audit. In planning a review of interim financial information, the auditor updates this understanding. The auditor also obtains a sufficient understanding of internal control as it relates to the

preparation of interim financial information as it may differ from internal control as it relates to annual financial information.

14. The auditor uses the understanding of the entity and its environment, including its internal control, to determine the inquiries to be made and the analytical and other review procedures to be applied, and to identify the particular events, transactions or assertions to which inquiries may be directed or analytical or other review procedures applied.

15. The procedures performed by the auditor to update the understanding of the entity and its environment, including its internal control, ordinarily include the following:

- Reading the documentation, to the extent necessary, of the preceding year's audit and reviews of prior interim period(s) of the current year and corresponding interim period(s) of the prior year, to enable the auditor to identify matters that may affect the current-period interim financial information.
- Considering any significant risks, including the risk of management override of controls, that were identified in the audit of the prior year's financial statements.
- Reading the most recent annual and comparable prior period interim financial information.
- Considering materiality with reference to the applicable financial reporting framework as it relates to interim financial information to assist in determining the nature and extent of the procedures to be performed and evaluating the effect of misstatements.
- Considering the nature of any corrected material misstatements and any identified uncorrected immaterial misstatements in the prior year's financial statements.
- Considering significant financial accounting and reporting matters that may be of continuing significance such as significant deficiencies in internal control.
- Considering the results of any audit procedures performed with respect to the current year's financial statements.
- Considering the results of any internal audit performed and the subsequent actions taken by management.
- Inquiring of management about the results of management's assessment of the risk that the interim financial information may be materially misstated as a result of fraud.
- Inquiring of management about the effect of changes in the entity's business activities.
- Inquiring of management about any significant changes in internal control and the potential effect of any such changes on the preparation of interim financial information.
- Inquiring of management of the process by which the interim financial information has been prepared and the reliability of the underlying accounting records to which the interim financial information is agreed or reconciled.

16. The auditor determines the nature of the review procedures, if any, to be performed for components and, where applicable, communicates these matters to other auditors involved in the review. Factors to be considered include the materiality of, and risk of misstatement in, the interim financial information of components, and the auditor's understanding of the extent to which internal control over the preparation of such information is centralized or decentralized.

**17. In order to plan and conduct a review of interim financial information, a recently appointed auditor, who has not yet performed an audit of the annual financial statements in accordance with ISAs, should obtain an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both annual and interim financial information.**

18. This understanding enables the auditor to focus the inquiries made, and the analytical and other review procedures applied in performing a review of interim financial information in accordance with this ISRE. As part of obtaining this understanding, the auditor ordinarily makes inquiries of the predecessor auditor and, where practicable, reviews the predecessor auditor's documentation for the preceding annual audit, and for any prior interim periods in the current year that have been reviewed by the predecessor auditor. In doing so, the auditor considers the nature of any corrected misstatements, and any uncorrected misstatements aggregated by the predecessor auditor, any significant risks, including the risk of management override of controls, and significant accounting and any reporting matters that may be of continuing significance, such as significant deficiencies in internal control.

## How do we comply with the Standards? [ISA | KAEGHDWC]

### 1 Interim Review | Update or obtain an understanding of the entity [ISA | 4215]

#### What do we do?

Update or obtain an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control, sufficient to identify types of potential misstatements and consider their likelihood of occurrence, and design interim review procedures.

#### Why do we do this?

In a review, we perform certain procedures to obtain an understanding of the entity. We use this understanding to determine what we will do during the interim review and the particular events, transactions or assertions where we will direct our efforts. We may have obtained some understanding of internal control as part of our annual audit, however we understand internal control relevant to interim financial information as it may differ from internal control relevant to annual financial information.

### Execute the Audit

[What do we do to update or obtain our understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control for an interim review?](#) [ISA | 4215.14605]

To update our understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control for an interim review, we:

- [Inquire of management and read documentation to update our understanding of the entity.](#)

If we are performing an initial interim review, we perform additional procedures (see '[Perform additional procedures to obtain an understanding of the entity for an initial review](#)').

[When do we update or obtain our understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control for an interim review?](#) [ISA | 4215.1500]

We can update or obtain our understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control for an interim review, before or at the

same time as the entity's preparation of the interim financial information. Performing some of these procedures earlier in the interim period also permits early identification and consideration of significant accounting matters affecting the interim financial information.

When we have obtained an understanding of the entity as part of a prior period audit or review, we can also leverage this understanding when performing an interim review for the current period.

[What is the difference between updating our understanding for an audit as compared to an interim review?](#) [ISA | 4215.14606]

The nature and extent of the procedures we perform to update our understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control, for an interim review are less extensive than an audit. Interim review procedures primarily involve

- identifying the types of potential material misstatements in the interim financial information and considering the likelihood of their occurrence; and
- performing inquiry and review of certain documents,

as opposed to the full scope of risk assessment procedures performed during an audit.

## 1.1 Interim Review | Inquire of management and read documentation to update our understanding of the entity [ISA | 4216]

### What do we do?

Inquire of management AND read documentation, considering relevant issues to update our understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control for an interim review

### Why do we do this?

The knowledge we obtain from inquiring of management and reading documentation helps us to design the procedures we plan to perform as part of an interim review, including further inquiries of management and analytical and other procedures.

### Execute the Audit

[What inquiries do we make of management to update our understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control for an interim review?](#) [ISA | 4216.1301]

We make the following inquiries of management to update our understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control for an interim review:

- changes in the entity's business activities;
- 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;

- the identity of, and nature of transactions with, related parties; and
- the process by which the interim financial information has been prepared and the reliability of the underlying accounting records to which the interim financial information is agreed or reconciled.

If the entity's internal control appears to contain deficiencies so significant that it would be impracticable for us to effectively perform interim review procedures that would achieve the objective stated, we think about whether these deficiencies would result in a scope limitation (see '[Communicate matters arising from the interim review to appropriate parties](#)').

Other inquiries may be made as part of our interim review and period-end audit procedures, and may also serve to update our understanding of the entity and its environment.

#### [What inquiries do we make in an interim review?](#) [ISA | 4216.1300]

We:

- [Inquire of members of management](#);
- [Inquire and perform interim review procedures related to the going concern assessment](#).

#### [What documentation do we read to update our understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control for an interim review?](#)

[ISA | 4216.1900]

To update our understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control for an interim review, we read:

- the documentation of the preceding year's audit and reviews of prior interim period(s) of the current year and corresponding interim period(s) of the prior year, to the extent necessary; and
- the most recent annual and comparable prior interim period financial information.

We may also read other documents, including reading and understanding the terms of debt agreements, as part of our interim review and year-end audit procedures, and they may also serve to update our understanding of the entity.

#### [What 'relevant issues' do we consider for an interim review, when reading documentation to update our understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control?](#) [ISA | 4216.2100]

When reading documentation to update our understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control, we consider the following relevant issues:

- the results of any audit procedures performed with respect to the current year's financial statements
- the particular events, transactions or assertions to which inquiries may be directed or analytical or other review procedures applied, including:
- the nature of any:
  - corrected material misstatements;
  - matters identified in any summary of uncorrected misstatements;

- any financial statement level risks, significant risk, including fraud risks and 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.
- changes that have occurred to the following:
  - applicable financial reporting framework, including applicable laws and regulations
  - applicable review standards, including applicable laws and regulations
  - industry specific requirements related to financial reporting
  - other terms of the engagement to be considered in the review.
- the findings of any relevant internal audit function report(s) and subsequent actions taken by management
- the effect, if any, of matters giving rise to a modification of the audit or review report at the time of the previous audit or reviews
- materiality with reference to the applicable financial reporting framework as it relates to interim financial information to assist in determining the nature and extent of the procedures to be performed and evaluating the effect of misstatements

If the entity's internal control appears to contain deficiencies so significant that it would be impracticable for us to effectively perform interim review procedures that would achieve the objective stated, we think about whether these deficiencies would result in a scope limitation (see '[Communicate matters arising from the interim review to appropriate parties](#)').

## 1.2 Interim Review | Initial Review | Perform additional procedures to obtain an understanding of the entity for an initial review [ISA | 4218]

### What do we do?

Perform additional procedures to obtain an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control when performing an initial interim review

### Why do we do this?

Where we are the recently appointed auditor for the current financial year audit and were not the auditor for the most recent annual financial statements of an entity, we do not have the same understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control, as an incumbent auditor. As a result, we carry out certain additional procedures to obtain that understanding.

### Execute the Audit



What additional procedures do we perform to obtain an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control for an initial interim review? [ISA | 4218.1300]

In addition to the procedures we perform for recurring clients, we perform the following procedures to obtain an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control for an initial interim review:

- [Inquire of the predecessor auditor and review their documentation, when applicable;](#)
- [Consider performing additional procedures to obtain sufficient knowledge of the entity for an initial interim review.](#)

## 1.2.1 Interim Review | Initial Review | Inquire of the predecessor auditor and review their documentation, when applicable [ISA | 4219]

### What do we do?

Inquire of the predecessor auditor and review their documentation, when applicable, considering relevant issues to obtain an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control for an initial interim review.

### Why do we do this?

The knowledge obtained from inquiring of the predecessor auditor and reading their documentation, helps us to design the procedures we plan to perform as part of an interim review, including further inquiries of management and analytical and other procedures.

## Execute the Audit

What inquiries do we make of the predecessor auditor to obtain an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control for an initial interim review? [ISA | 4219.1400]

We perform client and engagement acceptance procedures, including inquiries with the predecessor auditor, for initial audits in accordance with the Global Quality & Risk Management (GQ&RM) Manual together with any local policies and procedures and guidance.

If the entity's internal control appears to contain deficiencies so significant that it would be impracticable for us to effectively perform interim review procedures that would achieve the objective stated, we think about whether these deficiencies would result in a scope limitation (see '[Communicate matters arising from the interim review to appropriate parties](#)').)

What predecessor auditor documentation may we read to obtain an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control for an initial interim review? [ISA | 4219.1700]

To obtain an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control for an initial interim review, we may read the predecessor auditor's documentation for the preceding year's audit. Additionally, we may read predecessor documentation for interim reviews of the prior interim period(s) in the current year and the corresponding interim period(s) of the prior year to the extent considered necessary to obtain a sufficient understanding the entity.

What 'relevant issues' do we consider when reading the predecessor auditor documentation to obtain an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control for an initial interim review? [ISA | 4219.1900]

We consider the following when reading the predecessor auditor documentation to obtain an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control for an initial interim review:

- the results of any audit procedures performed with respect to the current year's financial statements
- the particular events, transactions or assertions to which inquiries may be directed or analytical or other review procedures applied, including:
- the nature of any:
  - corrected material misstatements;
  - matters identified in any summary of uncorrected misstatements;
  - any financial statement level risks, significant risks, including fraud risks and the risk of management override of controls; and
  - significant financial accounting and reporting matters that may be of continuing significance, such as weaknesses in internal control.
- changes that have occurred to the following since the predecessor auditor's previous audit:
  - applicable financial reporting framework, including applicable laws and regulations
  - applicable review standards, including applicable laws and regulations
  - industry specific requirements related to financial reporting
  - other terms of the engagement to be considered in the review
- the findings of any relevant internal audit function report(s) and subsequent actions taken by management
- materiality with reference to the applicable financial reporting framework as it relates to interim financial information to assist in determining the nature and extent of the procedures to be performed and evaluating the effect of misstatements.

If the entity's internal control appears to contain deficiencies so significant that it would be impracticable for us to effectively perform interim review procedures that would achieve the objective stated, we think about whether these deficiencies would result in a scope limitation (see '[Communicate matters arising from the interim review to appropriate parties](#)').

How do we gain access to predecessor auditor documentation? [ISA | 4219.2200]

We perform procedures in accordance with '[Review the predecessor auditor's audit documentation](#)' to gain access to predecessor auditor documentation to obtain an understanding of the entity and its

environment, the applicable financial reporting framework, and the entity's system of internal control for an initial interim review.

These activities include language specific to an audit engagement, however, we can apply the same principles in the circumstances of an interim review.

## 1.2.2 Interim Review | Initial Review | Consider performing additional procedures to obtain sufficient knowledge of the entity for an initial interim review [ISA | 4220]

### What do we do?

Consider whether to perform additional procedures to enable us to have sufficient knowledge of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control, for an initial interim review

### Why do we do this?

We think about whether to perform additional procedures to obtain a sufficient knowledge of the entity's business and its internal control to address our objectives of an interim review

Without doing this, we may fail to have a sufficient understanding, which could lead to a failure to perform appropriate inquiries or analytical or other procedures.

## Execute the Audit

Not Integrated Audit | Under what circumstances may we perform additional procedures to obtain sufficient knowledge of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control for an initial interim review? [ISA | 4220.1400]

We may determine to perform additional procedures to update and/or obtain our understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control, when other activities do not provide us with sufficient knowledge of the entity (see '[Inquire of management and read documentation to update our understanding of the entity](#)' and '[Inquire of the predecessor auditor and review their documentation, when applicable](#)').

What additional procedures may we perform to obtain sufficient knowledge of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control for an initial interim review? [ISA | 4220.1500]

The additional procedures we may perform to obtain sufficient knowledge of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control include:

- Inspecting company prepared policies and process flowcharts
- Reading Internal Audit Reports from the current and prior period

- Reviewing any assessments of internal controls over financial reporting that have been prepared by management

If the entity's internal control appears to contain deficiencies so significant that it would be impracticable for us to effectively perform interim review procedures that would achieve the objective stated, we think about whether these deficiencies would result in a scope limitation (see '[Communicate matters arising from the interim review to appropriate parties](#)').

## 2 Interim Review | Perform certain procedures when specific team members, specialists or component auditors participate in the interim review [ISA | 4560]

### What do we do?

Perform certain procedures when specific team members, specialists or component auditors participate in the interim review.

### Why do we do this?

To plan the interim review appropriately, and put the right resources in place, we determine whether to involve specific team members or specialist with specialized skills or knowledge to address certain aspects of the interim review. Additionally, we consider whether to involve component auditors in the interim review.

## Execute the Audit

### [Who is a 'specialist'? \[ISA | 4560.1300\]](#)

A specialist is an individual (or firm) that possesses special skill or knowledge in a particular field other than accounting or auditing whose work is used to assist us in the interim review. While different auditing standards refer to these individuals (or firms) as 'specialists' or 'experts', we refer to them as 'specialists'.

### [Are there different categories of specialists? \[ISA | 4560.1400\]](#)

Yes. We categorize specialists into three types depending on their role and relationship to the engagement:

- employed KPMG specialists - specialists who are partners or employees of the KPMG member firm that performs the particular engagement or another KPMG member firm that is subject to the same quality management and independence policies and procedures as the firm that performs the engagement;
- engaged KPMG specialists - specialists who are not partners or employees of the KPMG member firm that performs the particular engagement or another KPMG member firm that is

subject to the same quality management and independence policies and procedures as the firm that performs the engagement; and

- management's specialists - specialists who are either employed or engaged by the entity to assist management in the financial reporting process.

There are certain activities that we perform in the same way irrespective of whether a KPMG specialist is engaged or employed by our firm. Within those activities, we simply refer to the specialists as 'KPMG specialists' rather than 'employed KPMG specialists' and 'engaged KPMG specialists.'

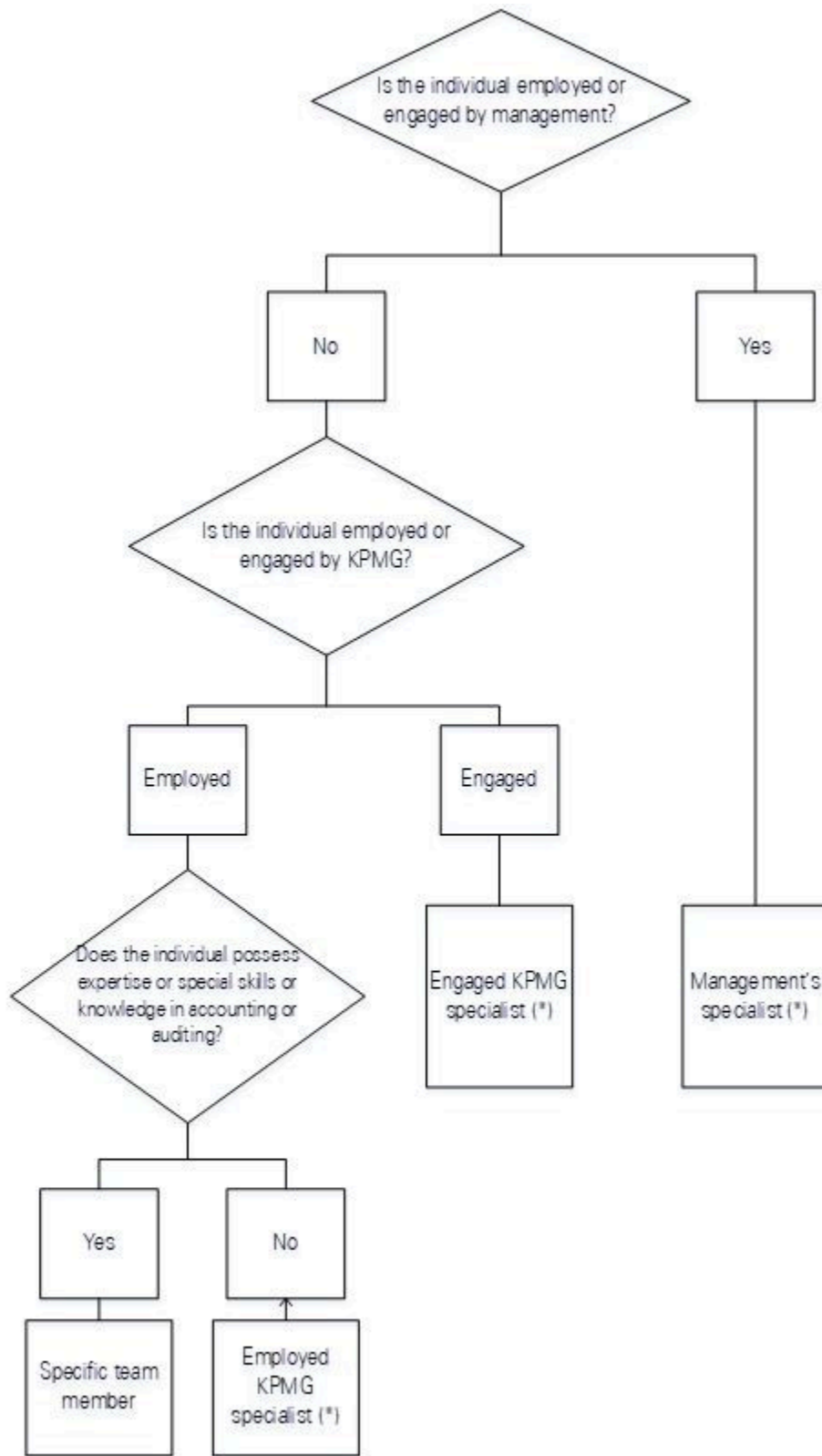
#### Who is a 'specific team member'? [ISA | 4560.15044]

A specific team member is a KPMG partner or employee with expertise in a specialized area of accounting or auditing. These include specific team members with expertise in performing audit or review procedures related to IT (e.g., IT Audit), accounting (e.g., accounting advisory service professionals) and accounting for income taxes (e.g., KPMG Tax professionals with knowledge in the area of income taxes).

#### What are the categories of professionals with specialized skills or knowledge we might use in the interim review? [ISA | 4560.15045]

The following decision tree can help us categorize the professionals with specialized skills or knowledge we may interact with in the interim review.

This categorization can affect how we work with these professionals, including how we supervise and/or interact with them and evaluate the results of their work.



(\*) Collectively "specialists".

[What do we do when we involve specific team members or specialists in an interim review?](#) [ISA |

4560.15043]

When we involve specific team members or specialists in an interim review we perform the following activities:

- [Determine which specific team member or specialists to involve in the interim review](#)
- [Perform planning procedures related to specific team members and specialists](#)
- [Review and evaluate the work performed by specific team members or specialists](#)

#### Group Audit | What do we do when we involve component auditors in an interim review? [ISA | 4560.14986]

When we, as the group auditor, involve component auditors in an interim review we perform the following activities:

- [Determine review procedures to be performed on components](#);
- [Communicate procedures and other specific matters to component auditors](#); and
- [Obtain certain confirmations from component auditors](#)

Refer to the chapter of group audits ([AS 1205](#), [ISA 600](#), [AU-C 600](#)) for further information on performing group audits and involving component auditors in a group audit.

## Examples

What are the types of specific team members with specialized skills in accounting or auditing? [ISA | 4560.1500]

The following table provides examples of the types of specific team members with specialized auditing and accounting skills, along with audit areas in which we commonly involve them.

Types	Examples of common audit areas
Specific team members with expertise in Tax	<ul style="list-style-type: none"> <li>• Evaluating the accounting or reporting for federal, foreign, state and local income, and other taxes, including valuation of: <ul style="list-style-type: none"> <li>- deferred tax assets and liabilities; and</li> <li>- valuation of tax contingency accruals</li> </ul> </li> <li>• Evaluating tax calculations and positions, including related income statement and balance sheet accounts and financial statement presentation and disclosure</li> </ul>
Specific team members with expertise in IT	<ul style="list-style-type: none"> <li>• Understanding an entity's information system, related business processes relevant to the preparation of the financial statements, and the flow of transactions, including understanding IT systems and service organizations</li> <li>• Understanding and testing automated controls, including general IT controls that support the effective operations of automated controls</li> <li>• Performing walkthroughs</li> <li>• Evaluating changes to IT systems or implementation of new IT systems</li> </ul>

	<ul style="list-style-type: none"> <li>Evaluating audit evidence available in electronic form only, and performing related audit procedures</li> <li>Designing and/or applying computer-assisted audit techniques</li> </ul>
Specific team members with expertise in the application of accounting standards (e.g., Accounting Advisory Services)	<ul style="list-style-type: none"> <li>Analyzing and evaluating the terms and conditions in specified contracts and agreements, and the associated accounting implications</li> <li>Evaluating the impact of adopting new accounting standards, including disclosure requirements</li> <li>Evaluating potential acceptable alternative accounting treatments for a specified transaction</li> </ul>
Specific team members with expertise in Forensics	<ul style="list-style-type: none"> <li>Evaluating our documentation regarding the identification of fraud risk factors and fraud risks</li> <li>Evaluating the designed response to assertion level fraud risks and the associated RMM due to fraud</li> </ul>

What are the types of employed KPMG specialists and engaged KPMG specialists? [ISA | 4560.15090]

The following table provides examples of the types of employed KPMG specialists and engaged KPMG specialists and audit areas in which we commonly involve them.

Types of professionals	Examples of common audit areas
Specialists with expertise in actuarial determinations and third-party actuaries	<ul style="list-style-type: none"> <li>Evaluating actuarial calculations of liabilities associated with insurance contracts or employee benefit plans, including evaluating assumptions and models</li> </ul>
Specialists with expertise in long-term construction contracts	<ul style="list-style-type: none"> <li>Evaluating reporting for long-term construction contracts principally related to the probable recovery of revenue associated with claims and change orders</li> <li>Evaluating management assumptions used to estimate costs to complete long-term contracts</li> </ul>
Specialists with expertise in valuation of environmental liabilities	<ul style="list-style-type: none"> <li>Evaluating the valuation of environmental liabilities and asset retirement obligations, principally related to:</li> </ul>



	<ul style="list-style-type: none"> <li>- environmental technical, regulatory and site visit evaluations;</li> <li>- review of management's approach; and</li> <li>- the process for determining management's exposures and benchmark analysis</li> </ul>
Specialists with expertise in valuation services	<ul style="list-style-type: none"> <li>• Evaluating the fair value, including assumptions and models, of certain assets and liabilities, including: <ul style="list-style-type: none"> <li>- tangible and intangible assets; assets acquired and liabilities assumed in a business combination;</li> <li>- assets that may have been impaired; and</li> <li>- valuations prepared for use in goodwill or other impairment assessments of non-financial assets</li> </ul> </li> <li>• Evaluating the valuation and reporting of share-based compensation arrangements</li> </ul>
Specialists with expertise in regulatory risk	<ul style="list-style-type: none"> <li>• Evaluating the appropriateness of a financial institution's (e.g. bank and/or bank-holding entity's) risk-based capital calculations relative to Financial Services - Regulatory Risk Advisory Practice's understanding of the applicable bank regulatory requirements</li> <li>• Reviewing regulatory, internal audit function, or credit review reports to help us identify risks</li> <li>• Evaluating the adequacy of our planned procedures over higher-risk loan portfolios or components of the allowance for loan losses</li> <li>• Evaluating the entity's internal or external loan review process, including risk-rating policies</li> <li>• Evaluating the entity's allowance methodology, including the</li> </ul>

	<p>reasonableness of loss factors and qualitative assumptions used</p> <ul style="list-style-type: none"> <li>• Performing credit file reviews (or evaluating the adequacy of credit file reviews performed by us), and evaluating the appropriateness of management's loan grading conclusion</li> <li>• Evaluating the entity's modeling procedures and mathematical processes used to estimate the allowance for loan losses for homogeneous loan portfolios - including, for example, mortgages, auto loans and leases, credit cards, installment and small business loans</li> <li>• Evaluating loss and prepayment assumption methodologies used for calculations related to homogeneous loan portfolios</li> <li>• Evaluating asset-backed securitization valuations</li> <li>• Evaluating high credit risk matters, including: <ul style="list-style-type: none"> <li>- the reliability of credit risk rating processes;</li> <li>- identification of problem assets;</li> <li>- appraisal management;</li> <li>- credit administration;</li> <li>- underwriting; and</li> <li>- loan loss reserving</li> </ul> </li> <li>• Evaluating model governance reviews and the valuation models used by the entity</li> <li>• Evaluating the accounting, valuation, and reporting of derivatives and hedging activities</li> <li>• Evaluating the fair value of other financial instruments</li> </ul>
Third-party attorneys	<ul style="list-style-type: none"> <li>• Interpreting contracts, laws and regulations</li> </ul>

Third-party engineers	<ul style="list-style-type: none"> <li>Evaluating the amount of oil, gas and other mineral reserves</li> <li>Determining physical characteristics related to quantity on hand or condition - for example, quantity or condition of minerals, or materials stored in stockpiles</li> </ul>
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## 2.1 Interim Review | Determine which specific team member or specialists to involve in the interim review [ISA | 4223]

### What do we do?

Determine which specific team members or specialists to involve in order to plan or perform the interim review procedures or evaluate the results

### Why do we do this?

Entities engage in different businesses and types of transactions, so we often encounter situations to involve specific team members or specialists. These individuals can help us:

- obtain an understanding of the entity and its control environment;
- plan and perform interim review procedures; and
- evaluate the results.

## Execute the Audit

How do we identify when it is appropriate to involve professionals with specialized skills or knowledge in an interim review? [ISA | 4223.1300]

Throughout the entire interim review, we consider whether to involve specialized skills or knowledge by thinking about a number of factors.

Stages of the interim review	Factors we think about:
<b>Pre-engagement activities</b>	<ul style="list-style-type: none"> <li>Client and engagement acceptance and continuance</li> <li>Completion of firm standard workpapers</li> </ul>
<b>Management Activities</b>	<ul style="list-style-type: none"> <li>Whether management has used a specialist to help them prepare the interim financial information</li> <li>Whether the specialist is employed by management or is engaged to provide relevant services to management</li> </ul>

	<ul style="list-style-type: none"> <li>• Whether management can exert control over or influence the specialist's work</li> <li>• Whether the entity has set controls over the specialist's work</li> </ul>
<b>Complex interim review matters</b>	<ul style="list-style-type: none"> <li>• Whether specialty areas are relevant to the interim financial information, such as areas where complex valuations or actuarial determinations are included</li> </ul>

[How does client acceptance and continuance help us identify the appropriate skills or knowledge?](#) [ISA | 4223.10822]

During the client and engagement acceptance and continuance process, we consider specific risks and complexities for the client and audit engagement.

Reviewing the outputs from our client and engagement acceptance and continuance process - along with other information we collect during that process - helps us identify areas in which we may involve specific team members or specialists with the appropriate skills and knowledge.

[How can management's activities be relevant in whether we involve a specific team member or specialists?](#) [ISA | 4223.1500]

In circumstances where management uses specialists, whether employed or through engaging a third party, it is likely that the entity has complex matters. Accordingly, in these circumstances, we assess whether to involve specific team members or specialists with similar specialized skills or knowledge in the interim review.

[Do we always involve specific team members or specialists in complex areas of the interim review?](#) [ISA | 4223.1600]

Not always. In some cases, we have or can obtain a sufficient understanding of the subject matter to perform the interim review without involving another person.

This understanding may be based on:

- our experience in auditing or performing interim reviews of other entities that require similar skills, knowledge and experience;
- our own education or professional development in the particular field, which may include formal courses;
- discussion with people possessing skills, knowledge and experience in the field that enhances our own capacity to deal with matters in that field; and;
- discussion with auditors who have performed similar engagements.

[What do we do when we have identified cybersecurity incidents in our interim review?](#) [ISA | 4223.8930]

If a cybersecurity incident at any layer comes to our attention during the course of our interim review, we follow activity '[Understand cybersecurity risks and incidents](#)' when responding to the incident.

[If we have engaged specific team members or specialists in the audit, do we also have to engage the specific team members or specialists in an interim review?](#) [ISA | 4223.14922]

No, the engagement team may have determined it has sufficient understanding of the subject matter to perform the interim review without involving specific team members or specialists.

For example, we may have used an actuary for purposes of the previous year's audit and plan to use the actuary in the current year audit as well, but we may not use them in the current year's interim review because we have an audit base and we are able to obtain sufficient understanding of the reason for any changes based on our analytical procedures and inquiries.

In the same scenario above, if the change to the actuarial liability is significant and based on an actuarial methodology change, we may not be able to obtain sufficient understanding of the reason for a change based on our analytical procedures or inquiries and hence use our actuary to help us conclude on our interim review.

## 2.2 Interim Review | Perform planning procedures related to specific team members and specialists <sup>[ISA</sup>

| 4225]

### What do we do?

IF a specific team member or a KPMG specialist will be involved or the work of a management's specialist will be used in the interim review, THEN perform planning procedures

### Why do we do this?

When we intend to use a specific team member or a KPMG specialist to assist us in performing the interim review or use the work of a management's specialist, we consider their knowledge, skill, ability, and objectivity or relationship to the entity, as appropriate, and plan their involvement/use in the interim review.

This helps us to oversee or use their work properly since we remain responsible for all aspects of the interim review.

## Execute the Audit

What do we consider when we involve a specific team member or a KPMG specialist during an interim period? <sup>[ISA | 4225.1500]</sup>

When a specific team member or a KPMG specialist is involved to assist us during an interim period, we first consider whether we are involving the specific team member or KPMG specialist in:

- the interim review - i.e., performing or assisting us in performing certain interim review procedures, or
- the year-end audit - i.e., performing audit procedures in an interim period; however, those audit procedures may also be relevant to our interim review.

When a specific team member or KPMG specialist is involved in the interim review, we follow this activity in the interim review chapter to plan their involvement, as well as the activity '[Review and evaluate the work performed by specific team members or specialists](#)' to evaluate their work.

For example, we may involve a specific team member with expertise in the area of income taxes in an interim review to perform inquiry and other procedures regarding the income tax provision in quarterly interim financial information subject to our interim review.

If a specific team member or KPMG specialist is performing audit procedures during an interim period, we follow the activities in the relevant audit chapters to plan their involvement and evaluate their work depending on the category of specific team member or KPMG specialist.

For example, for the purposes of our audit, we may involve an employed KPMG specialist with expertise in the area of valuation to assist us in timely evaluation of a significant business combination transaction that occurs in an interim period.

#### What procedures do we perform when we plan to involve a specific team member in the interim review?

[ISA | 4225.14915]

We:

- consider whether they have appropriate knowledge, skill and ability to perform the interim review procedures; and
- obtain agreement in writing with the specific team member regarding the interim review procedures to be performed.

#### How do we consider whether a specific team member has appropriate knowledge, skill or ability in an interim review? [ISA | 4225.14917]

To consider whether a specific team member has the necessary knowledge, skill and ability for the interim review, the engagement partner considers both:

- the information provided by the specific team member in the Knowledge, Skill and Ability Work Paper, including their training, professional experience and professional qualifications; and
- the KPMG member firm's system of quality management. This includes policies and procedures aimed to achieve quality objectives that specific team members have the knowledge, skill and ability to appropriately fulfil their role.

For further guidance on the procedures above or additional matters we may consider, refer to the audit activity '[Determine knowledge, skill and ability of specific team members](#)'.

#### What types of matters may we agree in writing with specific team member in an interim review? [ISA | 4225.15000]

When we obtain agreement in writing with the specific team member regarding the interim review procedures to be performed, our agreement may cover a variety of matters, such as:

- the nature, scope and objectives of their work;
- the respective roles and responsibilities between us and the specific team member;
- the nature, timing and extent of communication between us and the specific team member;

- the need to observe confidentiality requirements.

We may also consider whether there are matters relevant to their work and inform them of those matters.

For further guidance refer to the audit activity '[Inform the specific team members of work to be performed](#)'.

[What procedures do we perform when we plan to involve a KPMG specialist in the interim review?](#) [ISA | 4225.15001]

We:

- follow the relevant firm protocols to subcontract with an engaged KPMG specialist;
- consider whether KPMG specialists have appropriate knowledge, skill and ability for the purposes of the interim review;
- consider the KPMG specialist's objectivity; and
- obtain agreement in writing with the KPMG specialist regarding the interim review procedures to be performed and inform them of any relevant information.

[How do we sub-contract with engaged KPMG specialists?](#) [ISA | 4225.14930]

We follow the firm's protocols, including the local Risk Management protocols, when we subcontract with an engaged KPMG specialist.

Refer also to the audit activity '[Perform specific procedures to subcontract with an engaged KPMG specialist](#)'.

[How do we consider whether an employed KPMG specialist has appropriate knowledge, skill or ability in an interim review?](#) [ISA | 4225.14931]

To consider whether employed KPMG specialists have the necessary knowledge, skill and ability for the interim review, the engagement partner considers both:

- the information provided by the employed KPMG specialist in the Knowledge, Skill, and Ability (KSA) Work Paper, including their training, professional experience and professional qualifications; and
- the KPMG member firm's system of quality management. This includes policies and procedures aimed to achieve quality objectives that employed KPMG specialists have the knowledge, skill and ability to appropriately fulfil their role.

For further guidance on the procedures above or additional matters we may consider, refer to the audit activity '[Determine knowledge, skill and ability of employed KPMG specialists](#)'.

[How do we consider whether an engaged KPMG specialist has appropriate knowledge, skill or ability in an interim review?](#) [ISA | 4225.14932]

To consider whether engaged KPMG specialists have the necessary knowledge, skill and ability for the interim review, we:

- consider information obtained from our sub-contracting process; and
- inquire of and, if applicable, consider our prior experience with the engaged KPMG specialists.

For further guidance on the procedures above or additional matters we may consider, refer to the audit activity '[Assess the knowledge, skill and ability of the engaged KPMG specialist](#)'.

**How do we consider whether an employed KPMG specialist is appropriately objective in an interim review?** [ISA | 4225.14933]

Because employed KPMG specialists are partners or employees of KPMG, they are subject to the same firm-established guidelines for independence as all other interim review engagement team members and, therefore, we are entitled to rely on the firm's system of quality management when it comes to their independence from the entity. However, we remain alert for any indicators of possible relationships or conflicts of interest that could impact the employed KPMG specialists' objectivity.

For further guidance on the procedures above or additional matters we may consider, refer to the audit activity '[Assess objectivity of the employed KPMG specialist](#)'.

**How do we consider whether an engaged KPMG specialist is appropriately objective in an interim review?** [ISA | 4225.14934]

As a part of the sub-contracting process, at least annually we obtain written confirmation that the engaged KPMG specialist, including the firm that employs the specialist, if any, is independent of the entity.

Then, in connection with our interim review, we inquire of and, if applicable, reflect on our prior experience with the engaged KPMG specialists to consider their ability to objectively exercise impartial judgment on all issues encompassed by the specialist's work in connection with the interim review. In particular, we consider whether the engaged KPMG specialist or the firm that employs the specialist, if any, has a relationship to the entity or other conflicts of interest relevant to the work to be performed and consider the impact of these relationships or conflicts on the specialist's objectivity.

We may also inquire of the entity about any interests/relationships that the entity has with the specialist and the firm that employs the specialist, if any, that could create a threat to the specialist's objectivity

For further guidance on the procedures above or additional matters we may consider refer to the audit activity '[Assess the objectivity of the engaged KPMG specialist](#)'.

**What types of matters may we agree in writing with KPMG specialist in an interim review?** [ISA | 4225.14935]

When we obtain agreement in writing with the KPMG specialist regarding the interim review procedures to be performed, our agreement may cover a variety of matters, such as:

- the nature, scope and objectives of their work;
- the respective roles and responsibilities between us and the KPMG specialist;
- the nature, timing and extent of communication between us and the KPMG specialist;
- their responsibility to provide a report, or equivalent documentation, that describes the work performed, the results of the work and the findings or conclusions reached; and
- the need to observe confidentiality requirements.

We also consider whether there are matters relevant to their work and inform them of those matters.

For further guidance refer to the audit activity '[Establish and document an understanding with the employed KPMG specialist](#)' or '[Establish and document an understanding with the engaged KPMG specialist](#)'.

**Do we complete the Knowledge, Skill and Ability Work Paper for the purpose of our interim review?** [ISA | 4225.6396]



No; however, if, as a part of our current year audit planning procedures, we have completed our evaluation of the specific team member or employed KPMG specialist as evidenced in the completed Knowledge, Skill and Ability Work Paper signed by both the engagement partner and specialist, then the workpaper is also used to evidence our consideration of the knowledge, skill and ability of the specific team member or employed KPMG specialist for purposes of the interim review.

[How do we use the Knowledge, Skill and Ability Work paper in an interim review?](#) [ISA | 4225.6397]

The Knowledge, Skill and Ability Work paper is used to evaluate a specific team member or employed KPMG specialist for our year-end audits.

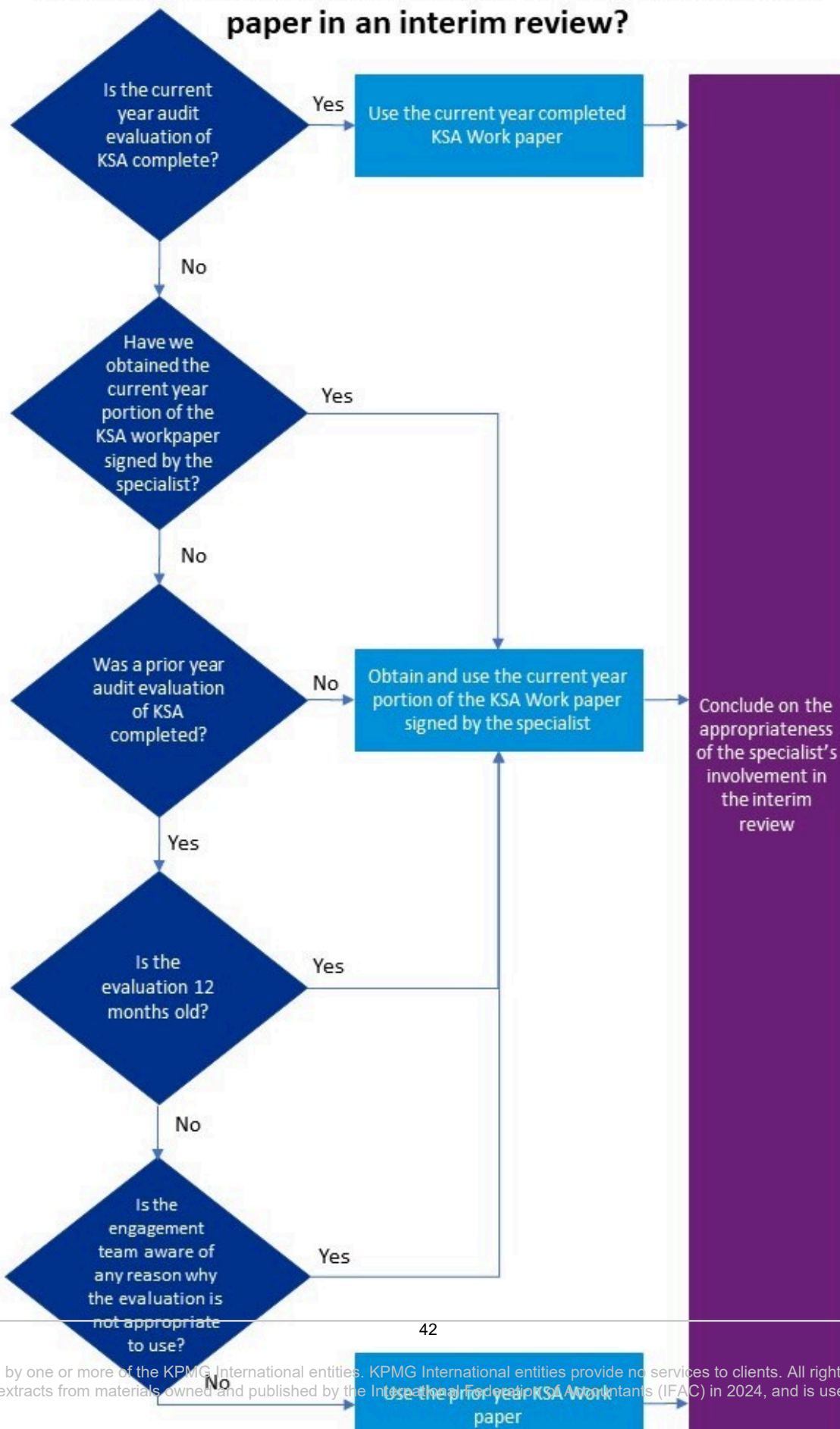
When the current year audit evaluation of the specific team member or employed KPMG specialist's knowledge, skill and ability is not complete as evidenced by completion of the Knowledge, Skill and Ability Work Paper, then, for the purpose of our interim review, we either:

- obtain the current year portion of the Knowledge, Skill, and Ability Work Paper signed by the specific team member or employed KPMG specialist and consider the information provided; or
- if this is not yet available, we consider the prior year audit evaluation of the specific team member or employed KPMG specialist as evidenced in the completed prior year Knowledge, Skill and Ability Work Paper, provided that:
  - the prior year evaluation is no more than 12 months old at the time of the interim review; and
  - we are not aware of any reason why the prior year evaluation may not be appropriate to use.

Refer to the decision flow chart below.

We may also inquire of the specific team member or employed KPMG specialist regarding whether the information in the Knowledge, Skill and Ability Work Paper we are using in the interim review is current and appropriate for our consideration of their knowledge, skill and ability.

## How do we use the Knowledge, Skill and Ability Work paper in an interim review?



For example, the engagement team plans to use an employed KPMG specialist in their interim review and year-end audit.

In interim period 1, the current year audit evaluation of the employed KPMG specialist's knowledge, skill and ability is not started and the employed KPMG specialist's portion of the Knowledge, Skill and Ability Work Paper has not yet been obtained. The engagement team uses the information provided by the employed KPMG specialist as evidenced in the prior year Knowledge, Skill and Ability Work Paper to consider whether their involvement is appropriate for the period 1 interim review procedures.

In interim period 2, the current year audit evaluation of the employed KPMG specialist's knowledge, skill and ability has been completed as evidenced in the completed Knowledge, Skill and Ability Work Paper. The engagement team uses the evaluation to evidence their consideration of the employed KPMG specialist's knowledge, skill and ability for the period 2 interim review procedures.

In interim period 3, the engagement team plans to involve a new employed KPMG specialist in the interim review and year-end audit due to changes in the entity's business. The current year audit evaluation of the new employed KPMG specialist's knowledge, skill and ability is not started and the employed KPMG specialist's portion of the Knowledge, Skill and Ability Work Paper has not yet been obtained. As the engagement team has not evaluated the knowledge, skill and ability of the new employed KPMG specialist in the prior year, they obtain from the new employed KPMG specialist their signed portion of the Knowledge, Skill and Ability Work Paper and use the information provided therein to consider whether the new employed KPMG specialist's involvement is appropriate for the period 3 interim review procedures.

The engagement team also uses the same signed portion of the Knowledge, Skill and Ability Work Paper provided by the new employed KPMG specialist to complete their audit evaluation of the new employed KPMG specialist's knowledge, skill and ability in interim period 4 for the purposes of the year-end audit.

[When might the prior year Knowledge, Skill and Ability Work paper no longer be appropriate to use in an interim review?](#) [ISA | 4225.6399]

Our prior year experience or current year discussions with the specific team member or employed KPMG specialist may alert us to matters that may make use of the prior year Knowledge, Skill and Ability Work paper not appropriate.

The following are examples of matters which may prompt us to obtain an updated and signed Knowledge, Skill and Ability Work paper from the specific team member or employed KPMG specialist in the current year:

- important new trainings relevant to the role or work of specialist in the interim review;
- known uncertainty in renewal of license, accreditation or professional certifications; or
- audit quality findings and considerations.

[What interim review procedures might specific team members and KPMG specialists perform in an interim review?](#) [ISA | 4225.14936]

When we involve specific team members and KPMG specialists in our interim review, they focus on interim review procedures where specialized skill or knowledge may be necessary. These interim review procedures may include:

- specific inquiries of management and others about matters requiring specialized skill or knowledge;
- analytical procedures related to those matters;
- review of relevant reports or other documentation, including reports of management's specialist;
- consideration of the reasonableness of judgements and consistency of information with other known information regarding the entity and its environment (e.g. the entity's effective tax rate), which may be obtained from either their previous experience and involvement with the entity or other relevant information communicated by the engagement team.

When a specific team member or KPMG specialist is involved in performing interim review procedures related to an estimate, those interim review procedures may be less robust than the audit procedures we perform over that estimate.

For example, we may ask them to perform procedures and consider if they are aware of any information that may suggest that the methods and assumptions are not reasonable or appropriate. Additionally, we may use analytical procedures or limited testing of relevance or reliability of data (i.e. lesser extent than samples selected in an audit).

[What do we consider if management uses a specialist in preparing the interim financial information?](#) [ISA | 4225.14937]

When management uses its own specialist in preparing the interim financial information, we first consider whether we intend to use that work in:

- the interim review - i.e., using their work in forming our conclusions for the interim review, or
- the year-end audit - i.e., using their work as part of the audit procedures we perform in an interim period; however, those audit procedures may also be relevant to our interim review.

If we use the work of a management's specialist for the purposes of our interim review, we follow this activity in the interim review chapter to plan use of their work as well as the activity '[Review and evaluate the work performed by specific team members or specialists](#)' to evaluate their work.

For example, we may use the work of a management's specialist when considering the valuation of a significant and volatile asset recorded in the interim financial statements.

We may also determine that it is beneficial to accelerate the timing of our audit procedures to an interim period and use the work of a management's specialist for the purpose of our year-end audit (the results of those procedures may also be relevant to our interim review). This may include involving our own KPMG specialists to assist us in these audit procedures. In these circumstances, we follow the activities for audits regarding using the work of management's specialist (refer to activities '[Perform specific procedures when using the work of a management's specialist](#)', and '[Evaluate the work of a management's specialist](#)').

For example, for the purposes of our audit, we may involve an employed KPMG specialist with expertise in the area of valuation to assist us in timely evaluation of a significant business combination transaction that occurs in an interim period for which management has used their own specialist to value certain intangible assets.

[How do we determine whether we are using the work of a management's specialist for our interim review?](#) [ISA | 4225.14939]

In determining whether we are using the work of a management's specialist for our interim review, we think about whether the management's specialist's work provides us with the relevant information or findings for certain amounts or disclosures in the interim financial information on which we base (at least in part) our interim review conclusions.

Simply reading the documentation prepared by a management's specialist does not necessarily mean that we have used their work in an interim review, provided we are satisfied that our other interim review procedures provide a basis for our interim review conclusion.

For example, in addition to reading a report from management's specialist, we may inquire of management, perform analytical procedures over changes in a certain account balance that relate to the subject matter of a management's specialist and decide further procedures are not necessary. In this circumstance, we may conclude that we have not used the management's specialist's work.

[What procedures do we perform when we plan to use the work of a management's specialist in the interim review?](#) [ISA | 4225.14940]

We inquire of and, if applicable, consider our prior experience with using the work of the management's specialist to consider:

- whether management's specialist has appropriate knowledge, skill and ability for the purposes of the interim review;
- the effect that the relationship between the entity and the management's specialist (including the specialist's firm, if any) may have on the specialist's judgment that are relevant to the interim financial information.

We may involve a KPMG specialist to assist us in our interim review procedures to evaluate the adequacy of the management's specialist's work.

For further guidance refer to the audit activity '[Assess the knowledge, skill, ability and relationship of the management's specialist](#)', including '[Assess the management's specialist's relationship to the entity](#)'.

[If we plan to involve or use the work of the same specific team member or specialist in our year-end audit, are our interim review planning procedures different?](#) [ISA | 4225.14941]

Not necessarily. However, if we know that the specific team member or specialist will assist us or we will use their work in our year-end audit, we may choose to accelerate our audit planning procedures to evaluate the specific team member's or specialist's knowledge, skill and ability, as well as their objectivity or relationship to the entity. In this instance, these more prescriptive audit planning procedures are sufficient for the purposes of the interim review.

## Is the work or findings of specific team members or specialists from our audit relevant to our interim review? [ISA | 4225.14942]

It can be. Even when the work or findings of specific team members or specialists relates to audit procedures performed in an interim period, we still consider whether they are relevant in forming our conclusions on the interim financial information.

For example, if the findings of a KPMG specialist involved in our audit indicate that there is or may be a material misstatement in the interim financial information, we consider and evaluate the impact on our interim review conclusion.

When their work or findings are relevant to our interim review, we also determine what interim review documentation is necessary (refer to question '[How do we document audit procedures repurposed as interim review procedures?](#)' for further discussion).

## 2.3 Interim Review | Review and evaluate the work performed by specific team members or specialists [ISA | 4226]

### What do we do?

Review the work performed by specific team members or specialists and evaluate the adequacy of their work for purposes of the interim review.

### Why do we do this?

We remain responsible for the specific team members' or KPMG specialists' findings and conclusions. Therefore, we review their work and evaluate whether it is adequate for purposes of our review. We also review and evaluate the work of management's specialists if we intend to base (at least in part) our interim review conclusions on that work.

## Execute the Audit

### How do we evaluate the adequacy of the work performed by the specific team member or KPMG specialist in an interim review? [ISA | 4226.1300]

We review the specific team member's interim review documentation or the KPMG specialist's deliverable to evaluate the relevance and reasonableness of his or her findings and conclusions for the purposes of our interim review.

The table below outlines

- the elements that we specifically evaluate in an interim review; and
- where additional guidance can be referenced.

Professional type	We evaluate specifically whether:	Additional guidance from related audit activities
Specific team members	<ul style="list-style-type: none"> <li>the specific team member's work is in accordance with our understanding and agreement with the specific team member; and</li> <li>the specific team member's findings and conclusions are consistent with results of the work performed by the specific team member, other interim review information obtained by us, and our understanding of the entity and its environment.</li> </ul>	Refer to activity ' <a href="#">Evaluate the work of the specific team member</a> '
KPMG specialists	<ul style="list-style-type: none"> <li>the specialist's work and report, or equivalent documentation, are in accordance with our understanding and agreement with the specialist; and</li> <li>the specialist's findings and conclusions are consistent with results of the work performed by the specialist, other interim review information obtained by us and our understanding of the entity and its environment.</li> </ul>	<p>For engaged KPMG specialist, refer to activity '<a href="#">Review the engaged KPMG specialist's work and report or equivalent documentation</a>'</p> <p>For employed KPMG specialist, refer to activity '<a href="#">Review the employed KPMG specialist's work and report or equivalent documentation</a>'</p>

[Are there any differences in how we evaluate the work performed by specific team members or KPMG specialists in an interim review as compared to an audit?](#)

We use our judgement in determining the extent of the interim review procedures we perform to evaluate whether the work performed by specific team members or KPMG specialists is adequate for purposes of our interim review.

In addition to reading the specific team member's interim review documentation or KPMG specialist's deliverable, we may inquire of the specific team member or KPMG specialists and consider whether their responses are consistent with other review information we have obtained.

If specific team members or KPMG specialists are involved to perform procedures on methods, assumptions or data for the purpose of an interim review, we may inquire of specific team members or KPMG specialists to understand their consideration of the reasonableness or appropriateness of the methods and assumptions and/or consider whether their responses are consistent with our understanding of the entity, its environment, or other information obtained from our interim review. Similarly, we may determine that inquiry and other analytical procedures on data used may be sufficient for interim review purposes.



Our interim review procedures are less robust than our audit procedures to evaluate whether methods and assumptions are reasonable or appropriate or whether data is relevant or reliable.

We keep in mind that the objective of our review is to provide us with a basis for communicating whether we are aware of any material modifications that should be made to the interim financial information for it to conform with the applicable financial reporting framework.

#### What do we do if the specific team member's or KPMG specialist's work is inadequate?

When the work of a specific team member or KPMG specialist is inadequate, we first discuss the matter with them. They may be able to resolve the issues by:

- performing additional or alternative interim review procedures; and/or
- amending their documentation/deliverable.

In some cases, we may resolve or assist in resolving the matter through performance of additional interim review procedures.

#### When might a specific team member's or KPMG specialist's work be inadequate?

A specific team member's or KPMG specialist's work may be inadequate if:

- it is not in accordance with our understanding and agreement with them;
- it is not sufficient for the purposes of our interim review; or
- it is contradictory to other interim review findings and conclusions.

Further examples and guidance on resolving issues with specific team member's or KPMG specialist's work can be found in the activities '[Evaluate the work of the specific team member](#)', '[Perform additional procedures when the employed KPMG specialist's work is not sufficient](#)' and '[Perform additional procedures when the engaged KPMG specialist's work is not sufficient](#)'.

#### Is the work or findings of specific team members or specialists from our audit relevant to our interim review? [ISA | 4226.14942]

It can be. Even when the work or findings of specific team members or specialists relates to audit procedures performed in an interim period, we still consider whether they are relevant in forming our conclusions on the interim financial information.

For example, if the findings of a KPMG specialist involved in our audit indicate that there is or may be a material misstatement in the interim financial information, we consider and evaluate the impact on our interim review conclusion.

When their work or findings are relevant to our interim review, we also determine what interim review documentation is necessary (refer to question '[If documentation from our audit is relevant to our review, do we include the documentation in both files?](#)' for further discussion).

#### What documentation do we obtain from specific team members or employed KPMG specialist for purposes of the interim review? [ISA | 4226.14925]

We obtain interim review documentation from the specific team member and an interim review deliverable prepared by the employed KPMG specialist.

The interim review documentation/deliverable includes, at a minimum:



- *Description of the nature of involvement of the specific team members or employed KPMG specialists:*
  - an understanding of the conditions which gave rise to their involvement in the engagement, based on discussions with us.
- *Procedures performed by the specific team members or employed KPMG specialists*
  - the specific procedures performed and related findings in arriving at their conclusions.
- *Conclusions reached by the specific team members or employed KPMG specialists*
  - their conclusions based on the results of procedures performed and related findings regarding the area(s) of the interim review in which they are involved.
  - conclusions are expressed in a manner consistent with the engagement team's conclusion on the interim financial information (e.g., nothing came to our attention indicating that material modifications are required with respect to the matters within the scope of our work).
- *Signature of the specific team member or employed KPMG specialists*
  - The interim review documentation/deliverable includes evidence of the sign-off by the specific team members or employed KPMG specialist who prepared and reviewed, if applicable, the interim review documentation/deliverable.

**What if specific team members or employed KPMG specialists identify specific matters that are significant to their conclusions?**

In these circumstances, we discuss and agree to the manner in which the specific matters included in the review documentation by the specific team members or employed KPMG specialists are to be addressed and resolved, and document such agreement.

Then, specific team members or employed KPMG specialists satisfy themselves with the resolution of any such specific matters and incorporate their findings into the overall conclusion reached by the specific team members or employed KPMG specialists prior to signing-off on the interim review documentation.

The nature of specific matters that are not significant to the specific team members' or employed KPMG specialists' conclusions is clearly described as such, and the specific team members or employed KPMG specialists also indicate in the interim review documentation that the matters do not impact their conclusions.

**What deliverable do we obtain from an engaged KPMG specialist for purposes of the interim review?** [ISA | 4226.14928]

There is flexibility as to the form of deliverable from the engaged KPMG specialist. In some cases, it may be a comprehensive report, a sign-off memorandum supported by work papers or some form of equivalent documentation. However, we obtain a written deliverable from the engaged KPMG specialist that includes sufficient information about the specialist's procedures, results and findings or conclusions. This documentation is detailed enough to allow us to determine whether the engaged KPMG specialist's:

- work and deliverables are in accordance with the upfront agreement we established with them; and

- findings or conclusions are consistent with the work performed, other interim review information obtained by us and our understanding of the entity and its environment.

#### How do we evaluate the work of a management's specialist? [ISA | 4226.14946]

We evaluate the work of a management's specialist by reviewing the specialist's report and performing other interim review procedures on their work, which can include inquiry, analytical procedures, and other review procedures. We then consider the results and findings in the context of the results of our interim review and our understanding of the entity.

## 2.4 Interim Review | Group Audit | Determine review procedures to be performed on components [ISA | 4227]

### What do we do?

Determine the nature of the review procedures, if any, to be performed on components and whether we will involve component auditors.

### Why do we do this?

When the entity has multiple components, we, as the group auditor, consider the relevant review procedures to be performed and who will perform these procedures. The decisions made when developing the group interim review plan contribute to the effectiveness and efficiency of the group interim review.

## Execute the Audit

#### How do we determine the nature, timing and extent of review procedures, if any, to be performed for components? [ISA | 4227.1300]

We, as the group auditor, use the information obtained through updating or obtaining our understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal controls (see activities '[Update or obtain an understanding of the entity](#)' and 'Take responsibility for obtaining an [understanding of the group](#)'), our initial assessment of components at which audit procedures will be performed (see activity '[Determine components at which audit procedures will be performed](#)'), and any changes to that assessment through developing our review plan (see activity '[Evaluate the remaining financial information](#)').

We consider the following factors when determining the nature, timing and extent of review procedures, if any:

- the materiality of, and risk of material misstatement in, the interim financial information of components;
- our understanding of the extent to which internal control over the preparation of such information is centralized or decentralized.

When planning interim reviews, it may also be helpful to think about the type of work performed at components in prior and current year interim reviews and group audits.

**How do we consider the materiality of, and risk of material misstatement in, the interim financial information of components?** [ISA | 4227.1400]

As the group auditor, when thinking about which components we will choose to perform interim review procedures for, we consider the size of the components, materiality of the component account balances in the context of the consolidated financial information, and whether any specific risks exist at a component that would warrant interim review procedures to be performed for that component.

As the size of the component and materiality of the component account balances increase, we are more likely to choose to perform interim review procedures for components.

Examples where we may decide to perform interim review procedures for specific components include:

- a component makes up a significant portion of the consolidated financial information (e.g. more than 20% of the group);
- an audit misstatement or other significant matter was identified during the prior year audit;
- a significant financial reporting change impacts transactions at certain components in the group more than others;
- a significant change in the composition of the group occurred as the result of a new component, a reorganization, or the disposal of part of a component that may warrant review procedures at the affected components.

**Do we perform procedures for components for an interim review if we plan to perform procedures for components for the year-end audit?** [ISA | 4227.14764]

Not necessarily. We, as the group auditor, may identify different components for which to perform procedures for an interim review as compared to a year-end audit - or may not identify any components at which to perform procedures. In an interim review, we may be able to accomplish the objectives of our review without performing specific procedures for a particular component.

**What do we think about in determining whether to involve component auditors in a group interim review?**  
[ISA | 4227.14765]

We, as the group auditor, think about the following factors when deciding whether to involve component auditors in a group interim review:

- availability and reliability of information regarding the component at the group level, including knowledge of management at the group level;
- our ability to conduct inquiries and analytical and other review procedures at a sufficient level of detail ourselves;
- competence and capabilities of the component auditor(s); and
- whether a component auditor will perform work for the component for the year-end audit.

Having component auditors involved during interim reviews can allow them better insight into component activities throughout the year and help in more effective and timely risk assessment and identification of potential issues.

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[How can we involve component auditors in a group interim review?](#) [ISA | 4227.14766]

As the group auditor, we can instruct component auditors to perform review procedures to support our interim review. The procedures can either be designed by us or by the component auditor.

[How do we consider the competence and capabilities of the component auditor when determining whether to use them in an interim review?](#) [ISA | 4227.14769]

When we, as the group auditor, have not yet evaluated a component auditor's competence and capabilities as part of the audit, we consider the following before using them in our interim review:

- when we have used the component auditor and evaluated their competence and capabilities in the prior period audit, we consider the results of that previous evaluation and our experience with the component auditors, along with any changes we are aware of;
- if we have not used the work of the component auditor in the prior period audit, we gain an understanding of the component auditor in accordance with the activities for determining the appropriate competence and capabilities of a component auditor to be used in the group audit (see activities '[Determine that component auditors have the appropriate competence and capabilities, including sufficient time](#)').

If we have already evaluated the competence and capabilities of the component auditor as a part of our audit planning procedures or in a previous interim period, it is not necessary to perform this evaluation again unless we become aware of any additional information relevant to this evaluation.

[What do we do when we have concerns about the professional competence and capabilities of a component auditor?](#) [ISA | 4227.14775]

If we, as the group auditor, determine that we have Less than Serious Concerns about the competence and capabilities of a component auditor, we increase our level of involvement in the work of the component auditor in a way that is responsive to the concerns identified, or design and perform additional review procedures on the interim financial information of the component.

If we have Serious Concerns about the competence and capabilities of a component auditor, we do not involve them in the interim review and consider the impact of those concerns on the involvement of the component auditor in the annual audit (see activity '[Evaluate the results of our understanding of the component auditor, determine whether we have Serious Concerns or Less than Serious Concerns and, if applicable, consult and determine the impact on our audit](#)').

[Can we do a group interim review without involving a component auditor?](#) [ISA | 4227.14779]

Yes. We, as the group auditor, may be able to obtain sufficient appropriate evidence at the group level for one or more components. In this case, we may not involve any of the component auditors to assist in the interim review.

## Examples

[When might we determine it appropriate to perform all interim review procedures at the group level?](#) [ISA | 4227.1500]

**Fact pattern**

A group auditor is performing a review of a multi-national semiconductor company with nine components. Transactions are processed at each component, recorded in the ERP system, and financial results are prepared on a monthly basis.

Although the components have different processes, controls and ERP systems, regional managers at the head office maintain responsibility for the results of the components. They perform ongoing monitoring activities over the operations of the components, including detailed reviews of the component's monthly and quarterly financial results. Component results are also consolidated and analyzed on a consolidated basis as well.

For the prior year-end audit, the group auditor involved component auditors at each component to perform audit procedures.

### **Analysis**

The centralized process over consolidating and reviewing components leads to group management being knowledgeable about results across the entity. As such, the group auditor concluded they could perform all interim review procedures at the group level.

However, they will request the involvement of component auditors during the year-end audit.

[When might we determine it appropriate to involve component auditors in an interim review of component financial information? \[ISA | 4227.1600\]](#)

### **Fact Pattern**

The group auditor audits a company that has three larger components and five smaller components. Historically, the group auditor has involved component auditors to perform a review of interim financial information at each of the three larger components because of their size and the decentralized nature of the group. The group auditor has not performed interim review procedures for the smaller components due to their smaller size and the lack of any specific risks.

This year, one of the smaller components made a significant acquisition, doubling the size of the component.

### **Analysis**

The group auditor decides to perform interim review procedures for the component that completed the acquisition, in addition to the three larger components, because:

- the acquisition results in the component more than doubling in size;
- there are a variety of specific risks that arise from the acquisition transaction that the group auditor wants to specifically consider when carrying out the interim review;
- engaging the component auditors to perform the interim review procedures will assist the component auditors in gaining a better understanding of the changes to the component, which they can leverage when performing year-end audit procedures.

## **2.5 Interim Review | Group Audit | Communicate procedures and other specific matters to component auditors** [ISA | 4264]

## What do we do?

Communicate the review procedures to be performed and other specific matters to component auditors.

## Why do we do this?

If there is not effective two-way communication between the group auditor and the component auditors, the group auditor may not obtain sufficient appropriate evidence on which to base the group interim review conclusions. Clear and timely communication of the group auditor's requests forms the basis of effective two-way communication between the group auditor and the component auditor.

## Execute the Audit

### What do we communicate to component auditors for an interim review? [ISA | 4264.15046]

We, as the group auditor, communicate the following to component auditors, in writing:

- the work to be performed by the component auditor, including:
  - the applicable accounting and financial reporting standards or, when the accounting and financial reporting standards applicable to the scope of work consist of accounting instructions from the parent company, access to those accounting instructions;
  - the applicable review standards; and
  - if applicable, review procedures designed by us to be performed by the component auditor, including the timing and extent of those procedures and any other information that may be relevant to performing those procedures.
- the form and content of the component auditor's communication with us (i.e., the templates/documents they will use to report to us);
- ethical and independence requirements applicable to the component auditors (see question ['What ethical and independence requirements do component auditors comply with?'](#));
- the expected date of the group review report;
- the expected group interim review file close out date; and the expected group interim review file assembly date.

### What do we communicate to component auditors regarding the applicable review standards to be applied in an interim review? [ISA | 4264.15052]

When the standards used to conduct the interim review of the group financial statements are ISREs, we, as the group auditor, specify in our instructions that:

Consideration	Requirements communicated
When the component is an audit client of the component auditor	Perform the review in accordance with: <ul style="list-style-type: none"><li>• the chapter on interim reviews (<a href="#">ISRE 2410</a>) for KPMG component auditors; or</li><li>• <a href="#">ISRE 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity</a> <a href="https://alex.kpmg.com/AROWeb/document/lfc/">https://alex.kpmg.com/AROWeb/document/lfc/</a></li></ul>

	UN_XLNUK_IFAC16_ISRE_2410/toc/UN_XLNUK_IFAC16_ISRE_2410?tocref=UN_XLNUK_IFAC16_ISRE_2410 for non-KPMG component auditors.
When the component is not an audit client of the component auditor	<p>Perform the review in accordance with <a href="#">ISRE 2400 (Revised)</a>, <a href="#">Engagements to Review Historical Financial Statements</a> <a href="https://alex.kpmg.com/AROWeb/document/lfc/UN_XLNUK_IFAC16_ISRE_2400/toc/UN_XLNUK_IFAC16_ISRE_2400?tocref=UN_XLNUK_IFAC16_ISRE_2400">https://alex.kpmg.com/AROWeb/document/lfc/UN_XLNUK_IFAC16_ISRE_2400?tocref=UN_XLNUK_IFAC16_ISRE_2400</a></p> <p>KPMG component auditors may document their work using the <a href="#">ISRE 2400 (Revised) Global Work Papers</a> <a href="https://alex.kpmg.com/AROWeb/document/lfc/find/GSC_INTL_ASSSERVCS_ISRE2400WPs/toc">https://alex.kpmg.com/AROWeb/document/lfc/find/GSC_INTL_ASSSERVCS_ISRE2400WPs/toc</a>.</p>

[If we include independence requirement communications in our group audit instructions, do we still make independence communications as part of an interim review?](#) [ISA | 4264.15048]

It depends on the timing of the communication for the group audit. If we, as the group auditor, have already communicated the ethical and independence requirements as a part of our audit communications, we do not communicate them again for each interim review. Otherwise, we communicate the ethical and independence requirements as part of our communications to the component auditor during the interim review.

## 2.6 Interim Review | Group Audit or Component Audit | Obtain certain confirmations from component auditors [ISA | 4265]

### What do we do?

Obtain certain confirmations from component auditors.

### Why do we do this?

Obtaining confirmations from component auditors is a good way to establish that the group auditor and component auditors have a shared understanding of how the interim review will be conducted. Without them, we run a risk that component auditors will not perform the procedures to support the group interim review.

## Execute the Audit

[What confirmations do we obtain from component auditors for an interim review?](#) [ISA | 4265.15095]

We, as the group auditor, obtain, review and retain the following confirmations in writing from each component auditor who is involved in an interim review:

Area	Confirmations obtained
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<b>Use of the component auditor's work</b>	<p>Confirmation from the component auditor that they understand:</p> <ul style="list-style-type: none"> <li>• the work to be performed by the component auditor;</li> <li>• the interim financial information of the component will be included in the group interim financial statements; and</li> <li>• we intend to use the component auditor's work as a basis for forming a conclusion on the group interim financial statements.</li> </ul>
<b>Cooperation and ability to be involved in the component auditor's work</b>	<p>Confirmation from the component engagement partner that the component auditor:</p> <ul style="list-style-type: none"> <li>• will cooperate with us in connection with the group interim review and provide us with access to relevant review documentation, that has been prepared for purposes of the group interim review, throughout our documentation retention period; and</li> <li>• acknowledges that we may consider it necessary to be involved in the work we have requested the component auditor to perform on the financial information of the component.</li> </ul>
<b>Compliance with our instructions</b>	<p>Confirmation from the component engagement partner that the component auditor:</p> <ul style="list-style-type: none"> <li>• will be able to comply with the group interim review instructions and perform the work requested by us for the group interim review purposes, including meeting all relevant communication deadlines and complying with the relevant professional standards set forth by us, and</li> <li>• will inform us as soon as possible if they believe they cannot comply with any aspects of our instructions during the interim review.</li> </ul>
<b>Completion and document retention</b>	<p>Confirmation that all necessary procedures have been completed, support for all conclusions has been obtained, the documentation has been prepared and reviewed, and all review notes have been cleared by the date of the group review report. Refer to activities '<a href="#">Complete all necessary procedures prior to the date of the auditor's report</a>' and '<a href="#">Assemble the final audit file</a>' for additional information regarding review notes.</p>
	<p>Confirmation that the component auditor will maintain separate review documentation for the work performed to support the group interim review instructions issued by us.</p>
	<p>Confirmation that the KPMG component auditor will close out the KPMG Clara workflow file in accordance with the group interim review instructions issued by us</p>



	Confirmation that the component auditor's documentation will be assembled by the file assembly date communicated by us.
	Confirmation that the KPMG component auditor will complete and provide the Documentation Assembly and Modification Working Paper-International or a memorandum that includes the relevant information from the working paper, if the component auditor is required to complete the Documentation Assembly and Modification Working Paper.
	Confirmation from KPMG component auditors (when part of another KPMG member firm) and non-KPMG component auditors, that they have and will comply with the documentation retention requirements set forth by us in the group interim review instructions
	Confirmation from KPMG component auditors of other KPMG member firms and non-KPMG component auditors, that the audit documentation supporting the work performed for purposes of the group interim review is accessible to us throughout the documentation retention period set forth in the group interim review instructions
<b>Ethics and independence</b>	Confirmation that the component auditor is in compliance with all applicable ethical and independence requirements relevant to the group audit.

When does the group auditor receive these confirmations from component auditors involved in an interim review? [ISA | 4265.15629]

As early as possible and before completion of the interim review.

## Inquiries, Analytical and Other Review Procedures

### International Standards on Review Engagements: ISRE 2410.19-29

## Inquiries, Analytical and Other Review Procedures

**19. The auditor should make inquiries, primarily of persons responsible for financial and accounting matters, and perform analytical and other review procedures to enable the auditor to conclude whether, on the basis of the procedures performed, anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework.**

20. A review ordinarily does not require tests of the accounting records through inspection, observation or confirmation. Procedures for performing a review of interim financial information are ordinarily limited to making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures, rather than corroborating information obtained concerning significant accounting matters relating to the interim financial information. The auditor's understanding of the entity and its environment, including its internal control, the results of the risk assessments relating to the preceding audit and the auditor's consideration of materiality as it relates to the interim financial information, affects the nature and extent of the inquiries made, and analytical and other review procedures applied.

21. The auditor ordinarily performs the following procedures:

- Reading the minutes of the meetings of shareholders, those charged with governance, and other appropriate committees to identify matters that may affect the interim financial information, and inquiring about matters dealt with at meetings for which minutes are not available that may affect the interim financial information.
- Considering the effect, if any, of matters giving rise to a modification of the audit or review report, accounting adjustments or unadjusted misstatements, at the time of the previous audit or reviews.
- Communicating, where appropriate, with other auditors who are performing a review of the interim financial information of the reporting entity's significant components.
- Inquiring of members of management responsible for financial and accounting matters, and others as appropriate about the following:
  - Whether the interim financial information has been prepared and presented in accordance with the applicable financial reporting framework.
  - Whether there have been any changes in accounting principles or in the methods of applying them.
  - Whether any new transactions have necessitated the application of a new accounting principle.
  - Whether the interim financial information contains any known uncorrected misstatements.
  - Unusual or complex situations that may have affected the interim financial information, such as a business combination or disposal of a segment of the business.
  - Significant assumptions that are relevant to the fair value measurement or disclosures and management's intention and ability to carry out specific courses of action on behalf of the entity.
  - Whether related party transactions have been appropriately accounted for and disclosed in the interim financial information.
  - Significant changes in commitments and contractual obligations.
  - Significant changes in contingent liabilities including litigation or claims.
  - Compliance with debt covenants.
  - Matters about which questions have arisen in the course of applying the review procedures.
  - Significant transactions occurring in the last several days of the interim period or the first several days of the next interim period.
  - Knowledge of any fraud or suspected fraud affecting the entity involving:
    - Management;
    - Employees who have significant roles in internal control; or

- Others where the fraud could have a material effect on the interim financial information.
- Knowledge of any allegations of fraud, or suspected fraud, affecting the entity's interim financial information communicated by employees, former employees, analysts, regulators, or others.
- Knowledge of any actual or possible noncompliance with laws and regulations that could have a material effect on the interim financial information.
- Applying analytical procedures to the interim financial information designed to identify relationships and individual items that appear to be unusual and that may reflect a material misstatement in the interim financial information. Analytical procedures may include ratio analysis and statistical techniques such as trend analysis or regression analysis and may be performed manually or with the use of computer-assisted techniques. Appendix 2 to this ISRE contains examples of analytical procedures the auditor may consider when performing a review of interim financial information.
- Reading the interim financial information, and considering whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework.

22. The auditor may perform many of the review procedures 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 and its environment, including its internal control, and begin reading applicable minutes before the end of the interim period. Performing some of the review procedures earlier in the interim period also permits early identification and consideration of significant accounting matters affecting the interim financial information.

23. The auditor performing the review of interim financial information is also engaged to perform an audit of the annual financial statements of the entity. For convenience and efficiency, the auditor may decide to perform certain audit procedures 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 of the interim financial information also may be used for the annual audit. The auditor may also decide to perform, at the time of the interim review, auditing procedures that would need to be performed for the purpose of the audit of the annual financial statements, for example, performing audit procedures on significant or unusual transactions that occurred during the period, such as business combinations, restructurings, or significant revenue transactions.

24. A review of interim financial information ordinarily does not require corroborating the inquiries about litigation or claims. It is, therefore, ordinarily not necessary to send an inquiry letter to the entity's lawyer. Direct communication with the entity's lawyer with respect to litigation or claims may, however, be appropriate if a matter comes to the auditor's attention that causes the auditor to question whether the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework, and the auditor believes the entity's lawyer may have pertinent information.

25. The auditor should obtain evidence that the interim financial information agrees or reconciles with the underlying accounting records. The auditor may obtain evidence that the interim financial information agrees or reconciles with the underlying accounting records by tracing the interim financial information to:

- (a) The accounting records, such as the general ledger, or a consolidating schedule that agrees or reconciles with the accounting records; and

(b) Other supporting data in the entity's records as necessary.

**26. The auditor should inquire whether management has identified all events up to the date of the review report that may require adjustment to or disclosure in the interim financial information.** It is not necessary for the auditor to perform other procedures to identify events occurring after the date of the review report.

**27. The auditor should inquire whether management has changed its assessment of the entity's ability to continue as a going concern. When, as a result of this inquiry or other review procedures, the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor should:**

**(a) Inquire of management as to its plans for future actions based on its going concern assessment, the feasibility of these plans, and whether management believes that the outcome of these plans will improve the situation; and**

**(b) Consider the adequacy of the disclosure about such matters in the interim financial information.**

28. Events or conditions which may cast significant doubt on the entity's ability to continue as a going concern may have existed at the date of the annual financial statements or may be identified as a result of inquiries of management or in the course of performing other review procedures. When such events or conditions come to the auditor's attention, the auditor inquires of management as to its plans for future action, such as its plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital. The auditor also inquires as to the feasibility of management's plans and whether management believes that the outcome of these plans will improve the situation. However, it is not ordinarily necessary for the auditor to corroborate the feasibility of management's plans and whether the outcome of these plans will improve the situation.

**29. When a matter comes to the auditor's attention that leads the auditor to question whether a material adjustment should be made for the interim financial information to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor should make additional inquiries or perform other procedures to enable the auditor to express a conclusion in the review report.** For example, if the auditor's review procedures lead the auditor to question whether a significant sales transaction is recorded in accordance with the applicable financial reporting framework, the auditor performs additional procedures sufficient to resolve the auditor's questions, such as discussing the terms of the transaction with senior marketing and accounting personnel, or reading the sales contract.

## How do we comply with the Standards? [ISA | KAEGHDWC]

### 1 Interim Review | Apply analytical procedures to the interim financial information and perform related inquiries [ISA | 4229]

#### What do we do?

We 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.

## Why do we do this?

We 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.

## Execute the Audit

### What procedures do we perform in an interim review? [ISA | 4229.1300]

In an interim review, we perform analytical procedures, inquiries, and other review procedures in order to express our interim review conclusion. We tailor our interim review procedures based on our knowledge of the entity's business and its internal control.

### What are analytical procedures? [ISA | 4229.1400]

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.

### What do we consider when using management's budgets, forecasts, and other anticipated results in analytical procedures? [ISA | 4229.1500]

We exercise caution when performing analytical procedures on 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.

### How do we apply analytical procedures in an interim review? [ISA | 4229.1600]

To apply analytical procedures in an interim review, we:

- [Identify periods for comparison.](#)
- [Compare recorded amounts or ratios to our expectation.](#)
- [Perform related inquiries and consider management's responses.](#)

### When do we perform the analytical procedures during a review of interim financial information? [ISA | 4229.1700]

We perform analytical procedures as early as possible during our review of interim financial information as the initial results of the analytical procedure may lead us to perform follow-up inquiries with management or other procedures on items identified as being unusual and having a potential of a material misstatement.

### Are there differences between our interim review analytical procedures, planning analytical procedures used in an audit, and the substantive analytical procedures used in an audit? [ISA | 4229.1800]

Yes. The differences between the three procedures are summarized in the following table:

	Analytical procedures used in an Interim Review	Planning analytical procedures used in an Audit	Substantive analytical procedures used in an Audit
Purpose	<ul style="list-style-type: none"> <li>Identify and provide a basis about the relationships and individual items that appear to be unusual and may indicate a material misstatement</li> <li>Enhance our understanding of the entity's business</li> <li>Enhance our understanding of significant transactions and events that occurred since the prior period</li> </ul>	<ul style="list-style-type: none"> <li>Identify risks and unusual items that warrant investigation during the audit</li> <li>Enhance our understanding of the entity's business</li> <li>Enhance our understanding of significant transactions and events that occurred since the prior period</li> </ul>	<ul style="list-style-type: none"> <li>Obtain sufficient appropriate audit evidence regarding the assessed CAR to be able to draw reasonable conclusions on which to base our audit opinion</li> <li>Identify material misstatements</li> </ul>
Level of Precision	We perform a comparison of the recorded amounts to the comparable period and determine whether our expectation of plausible relationships explains the fluctuation such that a material misstatement is remote.	We do not compare our expectation of plausible relationships among recorded amounts with a specific level of precision.	We compare our expectation of plausible relationships among recorded amounts with a specific precision level.  The level will vary depending upon the desired level of assurance.
Maximum Acceptable Difference	N/A - we do not set an acceptable difference.	N/A - we do not set an acceptable difference.	Performance Materiality
Evaluating the	We consider the relevance and reliability	We consider the relevance and reliability	Data used in a substantive analytical

relevance and reliability of the data	of the data used in the analytical procedure, however inquiry alone may be sufficient to determine the relevance and reliability of the data.	of the data used in the analytical procedure, however inquiry alone may be sufficient to determine the relevance and reliability of the data.	procedure is tested for accuracy and completeness to determine the relevance and reliability of the data.
Responses to issues identified	Perform inquiries or additional procedures to evaluate whether a material misstatement could exist.	Results are used in identifying and assessing risks of material misstatement.	Perform additional audit procedures to determine if there is a misstatement, which may affect our audit opinion.
Analytical performed	Comparison of a recorded amount to the prior-year balance or corresponding period, or to a trend of balances from two or more periods.	Comparisons of prior-period balances or current-period budgeted information vs preliminary current-period balances.	An expectation is established, typically at a more disaggregated level (e.g., account or sub-account level), and compared to a recorded amount. Differences outside of our expected range are investigated further.

Can we use our interim review analytical procedures as part of our audit risk assessment procedures? [ISA  
| 4229.1900]

It depends. Our interim review analytical procedures may be sufficient for the audit risk assessment, depending on the timing of those procedures and the specific analyses we perform. Because of the differences in objectives of our analysis, if interim review analytical procedures are not performed with risk assessment in mind, additional planning analytical procedures may be necessary to meet the objective for risk assessment. Additionally, there may be relevant information from other interim review procedures, such as from our inquiries, that could be relevant to our audit risk assessment.

In addition, our interim review analytical procedures may be performed too late in the year to be helpful during risk assessment, e.g. interim review on half-year numbers when risk assessment was done earlier in the year.

Further, sometimes we may be able to use the same analytical procedure in planning but the information we obtain from it may be different.

For example, we may perform an analysis of how many days it takes an entity to pay its payables. For an interim review, we may compare that against prior periods and investigate significant differences so that we can understand whether the payables may be understated. As

we move to planning the audit, we may take that same analysis but we may use the information to determine whether a particular procedure, for example a search for unrecorded liabilities, provides us with sufficient evidence. If payables do not get paid for four months, a search for unrecorded liabilities that is extended only two months after year end likely will not provide sufficient audit evidence.

#### Are there interactions between the audit procedures and the interim review procedures? [ISA | 4229.14621]

It depends. Similar to interim analytical procedures being repurposed as risk assessment procedures for purposes of the audit, certain auditing procedures may be performed concurrently with the review of interim financial information and repurposed as interim review procedures.

For example, there may be significant or unusual transactions, such as business combinations, restructurings, or significant revenue transactions, occurring during the interim period under review for which the auditing procedures are performed at the time of the interim review. We may repurpose the audit procedures and related documentation for our interim review and also include the relevant findings into the review documentation.

#### How do we document audit procedures repurposed as interim review procedures? [ISA | 4229.14622]

We include the relevant audit documentation in both the review documentation and the audit documentation in order to maintain separate sets of documentation for each engagement (e.g. each interim review, including a fourth quarter review, is maintained separate from the audit documentation). We may not include an identical set of documentation as the level of the evidence obtained for an interim review is not as extensive.

## 1.1 Interim Review | Identify periods for comparison [ISA | 4230]

### What do we do?

Identify the periods for comparison to apply analytical procedures to the interim financial information.

### Why do we do this?

We 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.

## Execute the Audit

#### What periods are subject to analytical procedures for each type of interim financial information? [ISA | 4230.1300]

We perform analytical procedures, at minimum, comparing the interim financial information with comparable information for the immediately preceding interim period, if applicable, and with the corresponding period(s) (quarterly and year-to-date, if applicable) in the previous year, giving



consideration to knowledge about changes in the entity's business and specific transactions. Refer to the examples below which presume that the entity has a calendar year-end:

**First quarter ended March 31, 20x8**

	Period subject to review	Comparative periods		
		As of 12/31/20x7	3 months ended 3/31/20x7	3 months ended 12/31/20x7
<b>Balance Sheet</b>	<b>As of 3/31/20x8</b>	Perform analytical procedure		
<b>Income Statement and Statement of Comprehensive Income</b>	<b>3 months ended 3/31/20x8</b>		Perform analytical procedure	Perform analytical procedure
<b>Statement of Cash flows</b>	<b>3 months ended 3/31/20x8</b>		Perform analytical procedure	

**Second quarter ended June 30, 20x8**

	Period subject to review	Comparative periods			
		As of 12/31/20x7	3 months ended 6/30/20x7	6 months ended 6/30/20x7	3 months ended 3/31/20x8
<b>Balance Sheet</b>	<b>As of 6/30/20x8</b>	Perform analytical procedure			

<b>Income Statement and Statement of Comprehensive Income</b>	<b>3 months ended 6/30/20x8</b>		Perform analytical procedure		Perform analytical procedure
	<b>6 months ended 6/30/20x8</b>			Perform analytical procedure	
<b>Statement of Cash flows</b>	<b>6 months ended 6/30/20x8</b>			Perform analytical procedure	

**Third quarter ended September 30, 20x8**

	<b>Period subject to review</b>	<b>Comparative periods</b>			
		<b>As of 12/31/20x7</b>	<b>3 months ended 9/30/20x7</b>	<b>9 months ended 9/30/20x7</b>	<b>3 months ended 6/30/20x8</b>
<b>Balance Sheet</b>	<b>As of 9/30/20x8</b>	Perform analytical procedure			
<b>Income Statement and Statement of Comprehensive Income</b>	<b>3 months ended 9/30/20x8</b>		Perform analytical procedure		Perform analytical procedure

	<b>9 months ended 9/30/20x8</b>			Perform analytical procedure	
<b>Statement of Cash flows</b>	<b>9 months ended 9/30/20x8</b>			Perform analytical procedure	

**Fourth quarter ended December 31, 20x8**

	<b>Period subject to review</b>	<b>Comparative periods</b>			
		<b>As of 12/31/20x7</b>	<b>3 months ended 12/31/20x7</b>	<b>12 months ended 12/31/20x7</b>	<b>3 months ended 9/30/20x8</b>
<b>Balance Sheet</b>	<b>As of 12/31/20x8</b>	Perform analytical procedure			
<b>Income Statement and Statement of Comprehensive Income</b>	<b>3 months ended 12/31/20x8</b>		Perform analytical procedure		Perform analytical procedure
	<b>12 months ended 12/31/20x8</b>			Perform analytical procedure	
<b>Statement of Cash flows</b>	<b>12 months ended 12/31/20x8</b>			Perform analytical procedure	

**Half-year ended June 30, 20x8**

	Period subject to review	Comparative periods	
		As of 12/31/20x7	6 months ended 6/30/20x7
Balance Sheet	As of 6/30/20x8	Perform analytical procedure	
Income Statement Statement of Comprehensive Income Statement of Cash flows	6 months ended 6/30/20x8		Perform analytical procedure

## 1.2 Interim Review | Compare recorded amounts or ratios to our expectation [ISA | 4231]

### What do we do?

Compare recorded amounts or ratios to our expectation, which is developed by using plausible relationships that are expected to exist based on our understanding of the entity

### Why do we do this?

We 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.

## Execute the Audit

[How do we compare the recorded amount or ratios to our expectations?](#) [ISA | 4231.1300]

We compare the recorded amount or ratios to our expectations through the following steps:

- (1) We develop expectations about the recorded amounts or ratios developed from recorded amounts in the interim financial information by considering plausible relationships among both financial and nonfinancial information and leveraging our understanding of the entity, industry and other information. See activity '[Update or obtain an understanding of the entity](#)'.
- (2) We then perform a comparison of the interim financial information with the comparable information. During this step we continue to develop expectations on certain interim financial

information based on our understanding of plausible relationships expected in the entity's interim financial information.

- (3) We determine whether our developed expectations are consistent with the recorded amounts or ratios developed from recorded amounts. When they are not consistent or we identify unusual relationships or items, we inquire further of management. See activity '[Perform related inquiries and consider management's responses](#)'.

#### How do we develop an expectation for the interim financial information? [ISA | 4231.1500]

In many cases, our starting point for developing an expectation is the comparable information in the preceding interim period(s) and corresponding period(s) in the previous year. We assess whether the comparable information is an appropriate expectation for the current interim period or adjust it based on our knowledge about changes in the entity's business, industry and specific transactions.

We also consider plausible relationships among other financial and nonfinancial information, where relevant. Other financial information may include budgets/ forecasted information, other entities in the same industry sector or certain ratios that are derived from the interim financial information.

For example, there may be a relationship between headcount and payroll expense, so if we learn that the workforce decreased, we may expect payroll expense to decrease.

#### How does developing expectations for an analytical procedure for an interim review differ from that in a substantive analytical procedure? [ISA | 4231.1600]

We typically do not develop expectations in the same way that we do for a SAP. Analytical procedures for interim reviews are not designed with the objective of providing substantive audit evidence. The differences in how we develop expectations for an analytical procedure for interim reviews compared to a SAP include:

- Our developed expectations are typically not as precise as those developed for SAPs;
- Our developed expectations are not necessarily documented upfront, but rather these are implicit in our evaluation of the actual amounts; and
- Inquiry alone may be sufficient to evaluate the reliability of the data from which our expectation is developed.

#### What is a 'plausible relationship'? [ISA | 4231.1700]

A plausible relationship is an expected relationship between financial information and other financial information, or financial information and non-financial information.

We may base an expected relationship on our understanding of the entity, the industry or past experience. These relationships can be expressed in various ways, including:

- simple comparisons of recorded amounts; or
- financial ratios that we can compare.

For example, we normally expect a relationship between sales and accounts receivable, whereby accounts receivable increase as sales increase. And in a 'brick and mortar' retail environment, we expect a relationship between sales and retail square feet.

Where plausible relationships exist, we expect them to continue to exist, unless something happens to affect the relationship.

For example, if the types of sales-generating activities remain the same, we expect accounts receivable to increase as sales increase.

#### How do we develop our expectations of plausible relationships? [ISA | 4231.1800]

We develop our expectations of plausible relationships by using our understanding of the entity, including any information we may have learned from our other interim review procedures — e.g. changes to the business.

For example, we may compare sales from the current and prior periods, and develop a general expectation for the accounts receivable balance.

If, however, our planning procedures reveal that the entity is making significantly more cash sales than in the past, we adjust our expectation of the relationship between sales and accounts receivable accordingly.

#### What do we do with our expectations of plausible relationships? [ISA | 4231.1900]

We compare our expectations of plausible relationships with the entity's recorded amounts and consider the results. When a relationship based on recorded amounts does not align with our expectation, we perform follow-up procedures.

For example, an entity has historically generated most of its sales through wholesale distribution channels. If that entity begins to sell its products through retail stores, it may generate significantly more cash sales than in the past.

This change may affect the relationship between sales and accounts receivable, because the entity will now have more sales without corresponding accounts receivables (since the sale was made for cash). When we compare this expectation to the entity's recorded amounts and our adjusted expectation does not align, we perform other procedures.

#### Do we consider plausible relationships in all interim reviews? [ISA | 4231.14652]

Yes. We consider plausible relationships as part of an interim review, but not in the same manner as in a SAP. In a SAP, plausible relationships are sufficiently predictable to obtain the desired level of persuasive audit evidence. For an analytical procedure in an interim review, our consideration of plausible relationships may be nothing more than a comparison to the prior period.

#### What level of evidence is necessary over the relevance and reliability of information we use in performing an analytical procedure? [ISA | 4231.14654]

The evidence we obtain to determine the relevance and reliability of the information in an interim review procedure may be less than what we use when testing a control or performing a substantive procedure (including a substantive analytical procedure).

#### How do we determine relevance? [ISA | 4231.14655]

We determine the relevance of the information we use to develop plausible relationships based on our understanding of the entity and the financial statement information that is key to the entity's operations.

'Relevance' connects back to the nature of our analytical procedures, and whether the information helps us understand a plausible relationship that exists. We do not use information unless it is relevant to our procedure.

#### [How do we determine reliability?](#) [ISA | 4231.14656]

We determine the reliability of the information through inquiry with management, or through other procedures to consider the source of the information.

Inquiry of management may sometimes be sufficient - e.g. it may help us confirm that the information we are using came directly from the entity's general ledger system, which has general IT controls in place.

For other information, we may perform additional procedures to determine its source and establish its reliability before we use it, such as observing management generating the information.

#### [What other factors do we think about in designing an analytical procedure?](#) [ISA | 4231.14657]

Designing analytical procedures is based on our professional judgment, but we think about the following factors:

- *Quantitative and qualitative factors to perform follow-up inquiries:* In performing our analytical procedures, we may identify unusual items or differences between our developed expectation and the recorded amounts in the interim financial information. When determining the items we perform follow-up inquiries with management, we may keep in mind quantitative and qualitative factors as discussed in activity '[Perform related inquiries and consider management's responses](#)'.
- *Level of disaggregation:* The decision as to whether to disaggregate other financial captions is based on professional judgment.
- *Extent and availability of client-prepared financial and operating data:* Most entities, if not already performing interim analytical procedures on their interim financial information, develop a vast amount of information to help management analyze operations and make business decisions. Before spending the time to accumulate and analyze such information, we obtain any internally prepared management reports and analyses that serves the same purpose.
- *Historical errors or new processes:* We may perform a different type of analytical procedure because the comparative trend analysis may not identify historical errors or new processes.

## Examples

### [Example of developing expectations and considering plausible relationships in performing an analytical procedure](#) [ISA | 4231.2000]

Entity X is a public professional services company. In planning for our Q1 20X8 interim review, we have obtained the following understanding about the entity's activity for the interim period:

- Revenues have doubled compared to the corresponding period in the previous year from new customers obtained through an acquisition of a similar sized domestic competitor, Entity Y, which was completed in Q2 20X7.

- Entity Y was acquired for \$145 million in cash, of which \$100 million of the value was allocated to customer relationships (5 year estimated life) and the remaining to goodwill.
- Gross margins in Q1 20X8 continue to be consistent from the previous year at around 50%.
- Entity Y had sales of \$50 million in Q1 20X7 and gross margins of 50%.
- Headcount for professional service (PS) consultants has doubled to 2000 employees due to the acquisition of Entity Y in the previous year.

We have also determined the following expected plausible relationships from certain financial and non-financial information based on our historical understanding of the entity and its industry:

- Days sales outstanding (DSO): 30 days
- Average annual payroll for professional service (PS) consultants: \$100 million
- Gross profit margin: 50%

Based on our judgement, we have also determined that differences from expectation of \$2 million or greater is unusual and may indicate a material misstatement.

Note, the interim financial information below has been abbreviated for purposes of this example.

**Income Statement:**

(in \$ millions)	Q1 20X7 Actual	Q1 20X8 Actual	Variance	Follow-up inquiry?
Revenue:				
Entity X	50	60	+10	Yes - a
Entity Y	0	50	+50	No - b
Total revenue:	50	110	+60	*
Cost of sales (COS):				
Consultant payroll	25	50	+25	No - c
Gross margin (\$)	25	60	+35	*
Gross margin (%)	50%	55%	+5%	Yes - d

\* Note these are aggregate of multiple captions, as such the adjustments and any differences are an aggregate of the individual line items above

Notes to the Income Statement:



(a) The fluctuation is not consistent with our expectation.

We expected revenue for Entity X to be consistent with Q1 20x7.

The difference from the actual increase of \$10 million is above \$2 million; therefore, we perform further inquiry.

(b) The fluctuation is consistent with our expectation.

We expected revenues to double over Q1 20x7, increasing by \$50 million considering the entity's recent acquisition of Entity Y and Entity Y's historical results.

(c) The fluctuation is consistent with our expectation.

We expected an increase over Q1 20x7 considering the increase in PS headcount and the average payroll for PS consultant per quarter - calculated as follows:

Increase in PS Headcount = 2,000 PS consultants - 1,000 PS consultants = 1,000

Average payroll per PS consultant per quarter =

\$100 million ÷ 1,000 PS consultants ÷ 4 quarters = \$.025

Expected increase = 1,000 X \$.025 = \$25

(d) The fluctuation is not consistent with our expectation.

We expected the gross margin percentage to be consistent with Q1 20x7 considering that there had been no change in Entity X's business and that Entity Y had the same gross margin percentage as Entity X and that there had been no change in Entity Y's business.

The difference in the gross margin percentage of 5% or \$5 million is above \$2 million; therefore we perform further inquiry.

#### Balance Sheet:

(in \$ millions)	Q4 20X7 Actual	Q1 20X8 Actual	Variance	Follow-up Inquiry?
Cash	100	112	+12	No - e
A/R	20	36	+16	No - f
Intangible assets	85	80	-5	No - g
Goodwill	45	45	0	No - h

Notes to the Balance Sheet:

(e) The fluctuation is consistent with our expectation.

The expected balance is consistent with the cash flow statement.

(f) The fluctuation is consistent with our expectation.

We expected the A/R balance to increase based on the increase in revenue. The expected level of increase is also consistent with our calculation of the expected period-end balance based on the historical DSO - calculated as follows:

$\$110 \text{ million (Q1 revenue)} \times 90 \text{ days (days in the interim period)} \div 30 \text{ days (historical DSO)} = \$37 \text{ million}$

The difference between our expectation and the actual is under \$2 million; therefore, we do not perform further inquiry.

(g) The fluctuation is consistent with our expectation.

We expected the intangible assets balance to decrease based on the amortization of the acquired customer relationships. No additions to the intangible assets were expected. The expected level of decrease is also consistent with our calculation of the expected period-end balance based on the following calculation:

$\$100 \text{ million acquired customer relationship} \div 60 \text{ month expected life} \times 3 \text{ months (months in the interim period)}.$

(h) The fluctuation is consistent with our expectation.

There was no expectation of any goodwill being impaired.

#### Statement of Cash Flows:

(in \$ millions)	Q1 20X7 Actual	Q1 20X8 Actual	Variance	Follow-up inquiry?
Net income	10	25	+15	^
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization	0	7	+7	Yes - i
Changes in operating assets and liabilities				
A/R	0	-16	-16	**
Net cash provided / used by operating activities	10	14	+4	*

^ The Q1 20x8 Actual amount agrees directly with the amount recorded in the income statement. The fluctuation can be derived from the income statement analytical.

\* Note these are aggregate of multiple captions, as such the adjustments and any differences are an aggregate of the individual line items above

\*\* The Q1 20x8 Actual amounts agree directly with the change in the account explained in balance sheet analytical.

Notes to the Statement of Cash Flows:

(i) The fluctuation is not consistent with our expectation.

The amortization adjustment is expected to be consistent with the amortization amount for the intangible assets. The difference from the actual amortization is above \$2 million; therefore, we perform further inquiry.

#### Examples of analytical procedures that we may perform [ISA | 4231.2100]

We often perform analytical procedures that take on characteristics of the various types of analytical procedures (i.e., trend analysis, ratio analysis, and reasonableness tests).

For example, the results of computing the current ratio (ratio analysis) are compared to current ratios of previous years (trend analysis) and evaluated based on your understanding of current factors affecting the client's working capital accounts (test of reasonableness).

Examples of the various types of analytical procedures are as follows:

- *Trend analysis*: the comparison of a recorded amount to the prior-year balance or corresponding period(s). This is the most basic and common analytical procedure we perform for a review of interim financial information.
- *Ratio analysis*: the comparison of a ratio calculated for the current period to a related or similar ratio for a prior period or a corresponding period, an industry standard, or a budget.

Profitability ratios are particularly useful in identifying potential misstatements of net income/income statement accounts. The ratios might also lead to the detection of balance sheet misstatements.

For example, the understatement of expenses may indicate the overstatement of assets, or vice versa.

Ratio analysis is most appropriate when the relationship between accounts is fairly predictable and stable. Ratio analysis can be more effective than trend analysis because comparisons between balance-sheet accounts and income statement accounts can reveal unusual fluctuations that an analysis of only one account may not.

- Common types of ratio analyses include:

Types of ratio analyses	Ratios and calculation
Profitability ratios	<ul style="list-style-type: none"><li>• Return on sales = Net income ÷ Net sales</li><li>• Return on total assets = Net income ÷ Total assets</li></ul>

	<ul style="list-style-type: none"> <li>Return on equity = <math>\text{Net income available to common stockholders} \div \text{Average common stockholders' equity}</math></li> <li>Gross profit percentage = <math>\text{Gross profit} \div \text{Net sales}</math></li> <li>Percentage change in sales = <math>(\text{Current year's net sales} - \text{Last year's net sales}) \div \text{Last year's net sales}</math></li> </ul>
Leverage ratios	<ul style="list-style-type: none"> <li>Debt to assets = <math>\text{Total debt} \div \text{Total assets}</math></li> <li>Debt to equity = <math>\text{Total debt} \div \text{Total equity}</math></li> <li>Coverage ratio = <math>(\text{Net income} + \text{Interest expense}) \div \text{Interest expense}</math></li> <li>Cash flow to total debt = <math>\text{Net cash flow} \div \text{Total debt}</math></li> </ul>
Liquidity ratios	<ul style="list-style-type: none"> <li>Current ratio = <math>\text{Current assets} \div \text{Current liabilities}</math></li> <li>Acid test ratio (or quick ratio) = <math>\text{Quick assets} \div \text{Current liabilities}</math></li> <li>Working capital turnover = <math>\text{Net sales} \div \text{Average working capital}</math></li> </ul>

- Model based procedures (reasonableness tests)*: the procedure where we use client operating data and the relevant external data (industry information and general economic information) to develop an expectation for the recorded amount. These procedures typically use operating and external data in addition to financial data to perform the reasonableness tests.

For example, the number of employees can be used to determine average wages or vacation pay per employee.

#### Examples of plausible relationships that exist between information [ISA | 4231.14658]

The table below sets out examples of plausible relationships that may be relevant to our analytical procedures.

Example of plausible relationship	Type of relationship
<p>Sales and accounts receivable:</p> <ul style="list-style-type: none"> <li>as sales increase, we expect accounts receivable to increase</li> <li>as sales decrease, we expect accounts receivable to decrease</li> </ul>	General relationship between accounts
<p>Accounts receivable turnover:</p> <ul style="list-style-type: none"> <li><math>\text{sales} \div \text{accounts receivable}</math></li> </ul>	Financial ratio
<p>Personnel cost per employee — average payroll-related costs per employee:</p>	Ratio based on financial and non-financial data

<ul style="list-style-type: none"> <li>personnel cost ÷ number of employees</li> </ul>	
<p>Days' sales outstanding:</p> <ul style="list-style-type: none"> <li>(accounts receivable ÷ sales) x days in period</li> </ul>	Financial ratio
<p>Sales and cost of sales:</p> <ul style="list-style-type: none"> <li>as sales increase, we expect the cost of sales to increase</li> </ul>	General relationship between accounts
<p>Gross profit margin - i.e. gross profit as a percentage of sales:</p> <ul style="list-style-type: none"> <li>(sales - cost of sales) ÷ sales</li> <li>we expect gross profit margin to remain constant, absent known changes — e.g. an increase in sales prices</li> </ul>	Financial ratio
<p>Selling price per unit - average selling price per sales unit:</p> <ul style="list-style-type: none"> <li>sales ÷ number of items sold</li> </ul>	Ratio based on financial and non-financial data
<p>Inventory turnover:</p> <ul style="list-style-type: none"> <li>sales ÷ inventory</li> </ul>	Financial ratio
<p>Days sales in inventory:</p> <ul style="list-style-type: none"> <li>(inventory ÷ cost of sales) x days in period</li> </ul>	Financial ratio

## 1.3 Interim Review | Perform related inquiries and consider management's responses [ISA | 4232]

### What do we do?

Inquire about items that may indicate a material misstatement, and consider the reasonableness and consistency of management's responses in light of the results of other review procedures and our knowledge of the entity.

### Why do we do this?

Analytical procedures can identify unusual items or relationships, which prompt us to inquire further of management. These inquiries can be helpful to determine whether there are possible material misstatements; however, we also consider the results of other review procedures and our knowledge of the entity to help us determine that management's responses are reasonable and consistent with that information.

## Execute the Audit

### How do we identify items to inquire of management? [ISA | 4232.1300]

We identify items to inquire of management based on the results of our analytical procedures, as well as other findings during our interim review procedures.

We consider quantitative and qualitative factors in evaluating those items to follow up on:

- *Quantitative factor* : A difference in the amount from our expectation that we consider to be unusual and may indicate a material misstatement.
- *Qualitative factors* :
  - Impact to investor decision making -we inquire of management about differences that have a potential impact on investor decision making, even when the difference between our expectation and the recorded amount or ratio is below quantitative thresholds.

For example, when a difference in the expected amount and the recorded amount impacts whether the entity meets analyst expectations or debt covenants.

- Unusual or unexpected relationships between other financial or non-financial information
  - even when the difference between our expectation and the recorded amount or ratio is below quantitative thresholds, if the movement or balance of an account is unusual and goes against the logical movement or balance when considering plausible relationships with other financial or non-financial information, we inquire of management of the difference. This could indicate other misstatements or issues where fraud or other pervasive issues exist.

Examples of such relationships includes:

- Sales increasing while accounts receivable decreases
- Sales increasing while cost of sales decreases
- Sales increasing while inventory decreases
- Payroll decreasing while the number of employees increases
- Changes in gross profit margins while sales prices remains constant

### How do we determine whether management's response is reasonable and consistent? [ISA | 4232.1400]

We evaluate management's responses by determining whether they are consistent with our understanding of the entity's business and internal controls, and the results from other interim review procedures performed. Indicators for follow-up may include:

- Inconsistencies with other responses or information we are aware of;
- unsatisfactory responses, e.g. vague or implausible; or
- items that seem unusual.

### What other review procedures may we perform to obtain an understanding of the entity?

We update our understanding of the entity at the beginning of the review. See activity '[Update or obtain an understanding of the entity](#)'.

We may perform procedures such as:

- Reading preceding year's audit and interim review documentation
- Reading the most recent annual and comparable interim period information
- Considering results of any audit procedures performed
- Making certain inquiries performed of management in the planning of the interim review

### What may be unusual items?

Items may be unusual when they are outside of the ordinary course of the entity's business or otherwise appear to be unusual due to their timing, size, or nature. These may include transactions entered into by the entity or events that have occurred, such as business combinations, asset sales, litigation or investigations.

### Do we corroborate management's responses? [ISA | 4232.1500]

No. In a review, we ordinarily do not corroborate management's responses with other evidence. However, we consider the reasonableness and consistency of management's responses in light of the results of other review procedures and our knowledge of the entity.

### What do we do when management's response is unreasonable or inconsistent? [ISA | 4232.1600]

If management's responses are unreasonable or inconsistent with our understanding of the entity, we perform additional procedures, such as additional inquiries or 'audit-like' procedures, including inspecting related supporting documents.

### What may management's unreasonable response indicate?

Unreasonable or inconsistent responses may occur for a variety of reasons, including:

- an individual trying to cover up the facts of an event or transaction;
- a simple mistake; or
- a lack of knowledge about the situation.

## 2 Interim Review | Perform inquiries [ISA | 4233]

### What do we do?

We perform certain inquiries to identify matters that may be relevant to the application of our interim review procedures

### Why do we do this?

We perform certain inquiries of management and others to identify matters that may be relevant to the application of our interim review procedures, such as fraud, litigation, and going concern.

## Execute the Audit

### What inquiries do we make in an interim review? [ISA | 4233.1300]

We:

- [Inquire of members of management](#) ;
- [Inquire and perform interim review procedures related to the going concern assessment](#) .

#### Who do we inquire of? [ISA | 4233.14746]

We primarily inquire of persons responsible for financial and accounting matters.

However, we do not limit our inquiries just to those persons in the financing and accounting departments. Based on specific inquiries, we also inquire of individuals whom we reasonably expect to have information related to the inquiry, which may include individuals within the operations functions, those charged with governance, or others.

For example, if we are inquiring about recent litigations, claims, and assessments, we may inquire of persons in the legal department and not just those persons in the finance or accounting department that may be recording the related journal entries.

#### Who makes the inquiries? [ISA | 4233.1600]

Inquiries are made by an engagement team member with the appropriate level of knowledge, experience and stature for both:

- the matter(s) we are inquiring about; and
- the person of whom we are inquiring.

For example, we wouldn't ask a first-year associate to inquire of the audit committee chair or owner-manager. Similarly, if there is a going concern risk, then a more senior team member — e.g. the engagement partner — is likely the best person to inquire.

To the extent possible, we make inquiries in person - observing nonverbal communication can help us evaluate the inquiree's response.

#### What does 'inquiry' involve? [ISA | 4233.14748]

Inquiry may involve:

- Considering the knowledge, objectivity, experience, responsibility, and qualifications of the individual to be questioned
- Asking clear, concise, and relevant questions
- Using open or closed questions appropriately
- Listening actively and effectively
- Considering the reactions and responses and asking follow-up questions
- Evaluating the responses (this is an integral part of the inquiry process)

In a review, we remain alert for information which might cause us to believe that the interim review information is materially misstated. If during our inquiry we become aware of such information, we tailor our planned inquiries to explore management's views on this information and its impact on the interim review information.



We may find management's explanations plausible and perform no further procedures. In other cases, we may increase the nature or extent of our interim review procedures to resolve whether we believe the interim review information is materially misstated.

## 2.1 Interim Review | Inquire of members of management [ISA | 4234]

### What do we do?

Make certain inquiries of members of management who have responsibility for financial and accounting matters.

### Why do we do this?

We make certain inquiries of management to identify whether there is any indication of a material misstatement in the interim financial information and to identify matters that may be relevant to the application of our interim review procedures, such as transactions or events having an impact on the interim financial information, fraud, and litigation.

## Execute the Audit

### What inquiries do we make? [ISA | 4234.1300]

We inquire about the following items:

- Whether the interim financial information has been prepared and fairly presented in conformity with the applicable financial reporting framework that has been consistently applied.
- Whether there have been any changes in accounting policies or principles or in the methods of applying them
- Whether any new transactions have necessitated the application of a new accounting policy or principle
- Whether any new estimates or significant changes to existing estimates have occurred during the interim period and if so, how such estimates have been reported in the interim financial information
- Unusual or complex situations that may have an effect on the interim financial information.
  - Examples of unusual or complex situations that we may think about inquiring are as follows:
    - 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
- The occurrence of infrequent transactions
- Significant unusual transactions
- Changes in litigation or contingencies
  - Changes in major contracts with customers or suppliers
  - Application of new accounting policies or principles
  - Changes in accounting policies or principles or the methods of applying them
  - Trends and developments affecting accounting estimates, such as allowances for bad debts and excess or obsolete inventories, provisions for warranties and employee benefits, and realization of unearned income and deferred charges
- Compliance with debt covenants
  - Changes in related parties or significant new related-party transactions
  - Material off-balance-sheet transactions, special-purpose entities, and other equity investments
  - Unique terms for debt or capital stock that could affect classification
- Significant changes in commitments and contractual obligations
- Compliance with debt covenants
- Matters about questions that have been raised in the course of applying the review procedures.
- Whether there are any significant assumptions that are relevant to the fair value measurement or disclosures and management's intention and ability to carry out specific courses of action on behalf of the entity.
- 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).
- Whether the interim financial information contains any known uncorrected misstatements
- Significant transactions occurring or recognized in the last several days of the interim period or in the first several days of the next interim period.
- Significant journal entries and other adjustments.
- Knowledge of significant unusual transactions, specifically; (a) significant unusual transactions that may have an effect on the interim financial information, and (b) significant unusual transactions occurring or recognized in the last several days of the interim period.
- Events subsequent to the date of the interim financial information up to the date of the review conclusion that may require adjustment or disclosure, i.e. could have a material effect on the presentation of such information.
- Significant changes in contingent liabilities, including litigations, claims and assessments.
- Changes in related parties or significant new related party transactions
- Whether related party transactions have been appropriately accounted for and disclosed in the interim financial information.
- 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.
- The results of management's assessment of the risk that the interim financial information may be materially misstated as a result of fraud.

- Knowledge 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.
- Knowledge of any identified or suspected non-compliance with laws and regulations, including actual or possible illegal acts, that could have a material effect on the interim financial information
- Communications from regulatory agencies. For US engagements, this includes governmental agency enforcement investigations.

For example, regulatory agencies may consist of taxing agencies, government agencies (e.g., SEC), etc.

- Significant deficiencies, including material weaknesses, in the design or operation of internal controls which could adversely affect the entity's ability to record, process, summarize, and report financial data.
- Reliability of the records to which the interim financial information was compared or reconciled.

[What are the records to which the interim financial information are compared or reconciled?](#) [ISA | 4234.1400]

In most entities, the accounting records are often the entity's general ledger or trial balance.

[How should management determine the reliability of these accounting records?](#) [ISA | 4234.1500]

Management is responsible for controls over its financial reporting process to generate complete and accurate accounting records. If these controls were operating effectively throughout the interim period, the accounting records are considered reliable. Any instances of failure results in management's and our evaluation as to the impact to the reliability of the accounting records.

[What might we identify through our inquiries?](#) [ISA | 4234.14613]

The inquiries may help us to identify:

- Adoption of new or changes to existing accounting policies or principles which may have a financial impact or result in new disclosures. For example, accounting changes will be assessed under the specific accounting standard under the relevant accounting framework.
- Potential or actual instances of fraud. Refer to guidance in our chapter on 'Illegal Acts by clients ([ISA 250](#), [AU-C 250](#), [AS 2405](#))', on how we address these matters.
- Out of period adjustments. Refer to activity on '[Accumulate, communicate and evaluate identified misstatements](#)'.
- Events or transactions, including contingent liabilities or related party, that may lead to changes in:
  - our expectations developed in our analytical procedures
  - the nature and extent of our other procedures
  - additional disclosure
- Subsequent events that may affect the interim financial information or disclosures
- Changes in internal control that may affect the interim financial information or disclosures

[What do we do if there is an indication of a material misstatement in the interim financial information from performing our inquiries?](#) [ISA | 4234.14614]

We perform additional procedures to address the item until we have a basis for our conclusion. These additional procedures may include additional inquiries or 'audit-like' procedures, such as inspecting supporting documents, related to the matter.

Our goal here is to perform additional work to determine whether we are aware of any material misstatements in the interim financial statements.

## 2.2 Interim Review | Perform interim review procedures related to the going concern assessment [ISA | 4236]

### What do we do?

Perform interim review procedures related to the entity's going concern assessment

### Why do we do this?

When there is doubt about an entity's ability to continue as a going concern, it can have a pervasive effect on the interim financial information. In an interim review, we perform procedures to understand whether management's assessment that the entity is still a going concern is appropriate.

### Execute the Audit

**What does it mean for an entity to be considered a 'going concern'?** [ISA | 4236.1300]

The definition of 'going concern' is specific to the applicable financial reporting framework, but generally it means that the interim financial information is prepared on the assumption that the entity will continue operations for the foreseeable future and will be able to meet its obligations as they become due.

In other words, an entity is considered to be a going concern when it is not expected to be liquidated, cease trading or go out of business.

**What is 'substantial doubt' in relation to the entity's ability to continue as a going concern?** [ISA | 4236.1400]

For the purposes of KPMG's methodology, we use the term 'substantial doubt' to refer to the degree of likelihood that an entity is not a going concern, which is defined within the applicable financial reporting framework. The use of the term "substantial doubt" is intended to convey the same meaning as the term "significant doubt"

These are some examples of commonly used financial reporting frameworks and the going concern terminology used:

Applicable financial reporting framework	Terminology	Definition
U.S. GAAP (ASC 205-40)	Substantial doubt about an entity's ability	Substantial doubt about an entity's ability to continue as a going concern

	to continue as a going concern	exists when conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable). The term probable is used consistently with its use in ASC Topic 450, Contingencies.
IFRS (IAS 1)	Material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern	<p>Material uncertainties and significant doubt are not specifically defined in IFRS.</p> <p>A material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern exists when the magnitude of its potential impact and likelihood of occurrence is such that, in our judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for the fair presentation of the financial statements.</p>

What does a 'reasonable period of time' mean in relation to the entity's ability to continue as a going concern? [ISA | 4236.1500]

In an interim review, we use the auditing standard's definitions of a "reasonable period of time".

Auditing Standard	"Reasonable period of time" definition
AS 2415	We have a responsibility to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements being audited.
ISA 570	The period of time defined by the applicable financial reporting framework, but at least twelve months from the date of the financial statements.

AU-C 570	The period of time defined by the applicable financial reporting framework or, if no such definition exists, within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable).
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How do financial reporting frameworks define a 'reasonable period of time' in relation to the entity's ability to continue as a going concern? [ISA | 4236.1600]

Most financial reporting frameworks that explicitly require management to perform a going concern evaluation also specify the period of time to be evaluated. For example, the commonly used financial reporting frameworks specify such period of time as follows:

Financial reporting framework	Period of time required
U.S. GAAP	Within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable).
IFRS	At least, but not limited to, one year from the end of the reporting period.

Who is responsible for the going-concern assessment? [ISA | 4236.1800]

As preparers of the interim financial information, management is responsible for the entity's going-concern assessment. The going concern basis of accounting is a fundamental principle in the preparation of the interim financial information.

Those charged with governance also have responsibility by virtue of the responsibility to oversee the financial reporting process. Others may also be responsible depending on the applicable financial reporting framework and relevant laws and regulations

What interim review procedures do we perform regarding management's assessment of going concern? [ISA | 4236.1900]

We perform the following interim review procedures:

- We inquire of management whether their going concern assessment has changed and is appropriate;
- If events or conditions exist that raise substantial doubt about an entity's ability to continue as a going concern, then we perform procedures over management's plan to mitigate any identified events or conditions that raise substantial doubt, if applicable

What are some examples of events or conditions that may raise substantial doubt about an entity's ability to continue as a going concern? [ISA | 4236.2200]

There are many different events or conditions that may raise substantial doubt about an entity's ability to continue as a going concern. Some examples of events or conditions that we may identify are included in the following table:

Type of event or condition	Examples
Negative financial trends	<ul style="list-style-type: none"> <li>recurring operating losses</li> <li>net liability or net current liability position (e.g., working capital deficiency)</li> <li>negative cash flows from operating activities</li> <li>substantial operating losses</li> <li>other adverse key financial ratios</li> </ul>
Other indications of possible financial difficulties	<p>defaults on bonds, loans or similar agreements</p> <p>arrears or discontinuance of dividends</p> <p>proximity to debt and tax limitations (for government entities)</p> <p>denial of usual trade credit from suppliers</p> <p>a need to restructure debt to avoid default</p> <p>excessive reliance on short-term borrowings to finance long-term assets</p> <p>greater reliance on non-traditional financing arrangements</p> <p>indications of withdrawal of financial support by creditors</p> <p>noncompliance with capital or other statutory or regulatory requirements</p> <p>a need to seek new sources or methods of financing or to dispose of substantial assets</p> <p>significant deterioration in the value of assets used to generate cash flows</p> <p>inability to pay creditors on due dates</p> <p>inability to comply with terms of loan agreements (i.e. debt covenant compliance)</p> <p>inability to obtain financing for essential new product development or other essential investments</p> <p>significant increase in the level of bad debts or insolvency of significant customers</p> <p>adverse changes in credit risk ascribed to transaction counterparties</p> <ul style="list-style-type: none"> <li>greater restrictions on access to capital and credit</li> <li>downward revisions to credit agency ratings</li> </ul>
Internal matters	<ul style="list-style-type: none"> <li>work stoppages or other labor difficulties</li> </ul>

	<ul style="list-style-type: none"> <li>• substantial dependence on the success of a particular project</li> <li>• uneconomic long-term commitments</li> <li>• a need to significantly revise operations</li> <li>• loss of key management without replacement</li> <li>• management intentions to liquidate the entity or cease operations</li> </ul>
External matters	<ul style="list-style-type: none"> <li>• legal proceedings, legislation, or similar matters that might jeopardize the entity's ability to operate</li> <li>• changes in law or regulation or government policy expected to adversely affect the entity</li> <li>• unstable or changing regulatory environments, including more proactive regulatory oversight</li> <li>• loss of a key franchise, license, or patent</li> <li>• loss of a principal customer or supplier</li> <li>• significant decline in demand by existing customers</li> <li>• technical obsolescence of products</li> <li>• shortages of important supplies</li> <li>• emergence of a highly successful competitor</li> <li>• an uninsured or underinsured catastrophe such as a hurricane, tornado, earthquake, or flood</li> <li>• fundamental and significant changes in the industry in which the entity operates</li> <li>• significant operations in regions that are economically unstable, such as countries with significant currency devaluation or highly inflationary economies</li> <li>• significant operations exposed to volatile markets</li> </ul>

If we identify one or more indicators of substantial doubt about an entity's ability to continue as a going concern, do we conclude that substantial doubt exists? [ISA | 4236.5945]

No, the existence of one or more of these events or conditions does not automatically result in our determination that there is substantial doubt about the entity's ability to continue as a going concern. Similarly, the absence of these specific events or conditions does not necessarily lead us to determine that there is no substantial doubt.

Determining whether there is substantial doubt depends on an assessment of relevant events or conditions, in aggregate, that are known or reasonably knowable at the date that the interim financial information is issued or available to be issued. We weigh the likelihood and magnitude of the potential effects of the relevant events or conditions and consider their anticipated timing.

What does 'reasonably knowable' mean in the context of management's going concern evaluation?

[ISA | 4236.5946]

"Reasonably knowable" means those matters that an entity may not know otherwise but would be able to identify without a significant amount of cost or effort.



For example, a sharp and significant decline in broader economic conditions subsequent to the issuance of the interim financial information may be a condition that was not reasonably knowable prior to their issuance. However, an entity's estimated operating losses for the upcoming look-forward period is a condition that is reasonably knowable as of the assessment date.

[Do we design interim review procedures solely to identify events or conditions that may raise substantial doubt about an entity's ability to continue as a going concern?](#) [ISA | 4236.5947]

No. We identify events or conditions by considering the results of interim review procedures designed and performed to achieve other interim review objectives.

We may become aware of events or conditions through either our prior period financial statement audit, the immediately preceding interim period review or our current period interim review procedures.

## 2.2.1 Interim Review | Inquire of management whether its going concern assessment has changed

[ISA | 4237]

### What do we do?

Inquire of management whether their going concern assessment has changed and is appropriate

### Why do we do this?

The going concern assumption has a pervasive effect on the interim financial information. In an interim review, we perform procedures to understand whether management's assessment has changed and remains appropriate given the implications it can have broadly on financial reporting.

## Execute the Audit

[What do we inquire about regarding management's interim going concern assessment?](#) [ISA | 4237.1300]

We inquire whether management has changed its assessment of the entity's ability to continue as a going concern.

[Who do we inquire of regarding management's interim going concern assessment?](#) [ISA | 4237.1400]

We primarily inquire of persons responsible for financial and accounting matters.

However, we do not limit our inquiries just to those persons in the financing and accounting departments. Based on specific inquiries, we also inquire of individuals whom we reasonably expect to have information related to the inquiry. For example, if we are inquiring about going concern, we may inquire of those charged with governance and not just those persons in the finance or accounting department.

[Who makes going concern inquiries?](#) [ISA | 4237.1500]

Inquiries are made by an engagement team member with the appropriate level of knowledge, experience and stature for both:

- the matter(s) we are inquiring about; and
- the person of whom we are inquiring.

For more complex and significant matters, it may be more appropriate for the engagement partner and/or the engagement manager to make the inquiries. This includes situations where there are events or conditions that raise substantial doubt on the entity's ability to continue as a going concern.

#### How do we make our going concern inquiries? [ISA | 4237.1600]

Inquiries may involve:

- Considering the knowledge, objectivity, experience, responsibility, and qualifications of the individual to be questioned
- Asking clear, concise, and relevant questions
- Using open or closed questions appropriately
- Listening actively and effectively
- Considering the reactions and responses and asking follow-up questions
- Evaluating the responses. (This is an integral part of the inquiry process)

In an interim review, we remain alert for information that might cause us to believe that the interim financial information is materially misstated. If during our inquiry we become aware of such information, we adjust our planned inquiries to explore management's views on this information further and its impact on the interim review information.

We may find management's explanations plausible and perform no further procedures. In other cases, we may increase the nature or extent of our interim review procedures to resolve whether we believe the interim financial information is materially misstated.

#### Do we perform other interim review procedures in addition to inquiry regarding management's interim going concern assessment? [ISA | 4237.1700]

We may, however, corroborating inquiries of management are not always necessary in an interim review.

#### What are some examples of factors we may think about when planning our going concern interim review procedures? [ISA | 4237.1900]

Type of factor	Factors
Factors specific to the entity	<ul style="list-style-type: none"><li>• Earnings/ loss history</li><li>• Access to financing</li><li>• Ability to raise equity</li><li>• Complexity of operations</li><li>• Whether there were known events or conditions that raise substantial doubt on the entity's ability to continue as a going concern in the prior period annual financial statement audit or prior interim periods</li></ul>

Factors specific to the entity's environment	<ul style="list-style-type: none"> <li>Economic environment</li> <li>Regulatory environment</li> <li>Disruptors in the entity's industry</li> </ul>
Other factors	<ul style="list-style-type: none"> <li>Factors considered in management evaluation of the going concern assessment</li> </ul>

## 2.2.2 Interim Review | Perform procedures over management's plans to mitigate any identified events or conditions that raise substantial doubt, if applicable [ISA | 4241]

### What do we do?

IF events or conditions exists that raise substantial doubt about an entity's ability to continue as a going concern THEN perform certain review procedures

### Why do we do this?

Our interim review procedures address events or conditions that raise substantive doubt on the entity's ability to continue as a going concern because of the potential pervasively impact on the interim financial information. In addition to impacting the appropriateness of the going concern basis of accounting, they may trigger additional disclosures as per the applicable financial reporting framework.

### Execute the Audit

What is 'substantial doubt' in relation to the entity's ability to continue as a going concern? [ISA | 4241.15207]

For the purposes of KPMG's methodology, we use the term 'substantial doubt' to refer to the degree of likelihood that an entity is not a going concern, which is defined within the applicable financial reporting framework. The use of the term "substantial doubt" is intended to convey the same meaning as the term "significant doubt".

Below are some examples of commonly used financial reporting frameworks and the going concern terminology used:

Applicable financial reporting framework	Terminology	Definition
U.S. GAAP (ASC 205-40)	Substantial doubt about an entity's ability to continue as a going concern	Substantial doubt about an entity's ability to continue as a going concern exists when conditions and events, considered in the aggregate, indicate

		that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable). The term probable is used consistently with its use in ASC Topic 450, <i>Contingencies</i> .
IFRS (IAS 1)	Material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern	<p>Material uncertainties and significant doubt are not specifically defined in IFRS.</p> <p>A material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern exists when the magnitude of its potential impact and likelihood of occurrence is such that, in our judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for the fair presentation of the financial statements.</p>

What are some examples of events or conditions that may raise substantial doubt about an entity's ability to continue as a going concern? [ISA | 4241.1400]

There are many different events or conditions that may raise substantial doubt about an entity's ability to continue as a going concern. Some examples of events or conditions that we may identify are included in the following table:

Type of event or condition	Examples
Negative financial trends	<ul style="list-style-type: none"> <li>• recurring operating losses</li> <li>• net liability or net current liability position (e.g., working capital deficiency)</li> <li>• negative cash flows from operating activities</li> <li>• substantial operating losses</li> <li>• other adverse key financial ratios</li> </ul>

Other indications of possible financial difficulties	<ul style="list-style-type: none"> <li>• defaults on bonds, loans or similar agreements</li> <li>• arrears or discontinuance of dividends</li> <li>• proximity to debt and tax limitations (for government entities)</li> <li>• denial of usual trade credit from suppliers</li> <li>• a need to restructure debt to avoid default</li> <li>• excessive reliance on short-term borrowings to finance long-term assets</li> <li>• greater reliance on non-traditional financing arrangements</li> <li>• indications of withdrawal of financial support by creditors</li> <li>• noncompliance with capital or other statutory or regulatory requirements</li> <li>• a need to seek new sources or methods of financing or to dispose of substantial assets</li> <li>• significant deterioration in the value of assets used to generate cash flows</li> <li>• inability to pay creditors on due dates</li> <li>• inability to comply with terms of loan agreements (i.e. debt covenant compliance)</li> <li>• inability to obtain financing for essential new product development or other essential investments</li> <li>• significant increase in the level of bad debts or insolvency of significant customers</li> <li>• adverse changes in credit risk ascribed to transaction counterparties</li> <li>• greater restrictions on access to capital and credit</li> <li>• downward revisions to credit agency ratings</li> </ul>
Internal matters	<ul style="list-style-type: none"> <li>• work stoppages or other labor difficulties</li> <li>• substantial dependence on the success of a particular project</li> <li>• uneconomic long-term commitments</li> <li>• a need to significantly revise operations</li> <li>• loss of key management without replacement</li> <li>• management intentions to liquidate the entity or cease operations</li> </ul>
External matters	<ul style="list-style-type: none"> <li>• legal proceedings, legislation, or similar matters that might jeopardize the entity's ability to operate</li> <li>• changes in law or regulation or government policy expected to adversely affect the entity</li> <li>• unstable or changing regulatory environments, including more proactive regulatory oversight</li> <li>• loss of a key franchise, license, or patent</li> <li>• loss of a principal customer or supplier</li> <li>• significant decline in demand by existing customers</li> <li>• technical obsolescence of products</li> <li>• shortages of important supplies</li> </ul>

	<ul style="list-style-type: none"> <li>• emergence of a highly successful competitor</li> <li>• an uninsured or underinsured catastrophe such as a hurricane, tornado, earthquake, or flood</li> <li>• fundamental and significant changes in the industry in which the entity operates</li> <li>• significant operations in regions that are economically unstable, such as countries with significant currency devaluation or highly inflationary economies</li> <li>• significant operations exposed to volatile markets</li> </ul>
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If we are aware of events or conditions that raise substantial doubt about the entity's ability to continue as a going concern, what do we do? [ISA | 4241.1500]

We:

- [inquire and perform other review procedures related to management's plans to mitigate the matter\(s\)](#); and
- [consider disclosures about going concern events or conditions](#).

When might events or conditions that raise substantial doubt be identified that we perform interim review procedures? [ISA | 4241.1600]

We perform interim review procedures for events or conditions that were identified either:

- At the date of the prior-period financial statements regardless of whether the substantial doubt was alleviated by management's plans,
- At the immediately preceding interim period, if applicable, or
- During the current interim period.

## 2.2.2.1 Interim Review | Inquire and perform other review procedures related to management's plans to mitigate the matter(s) [ISA | 4242]

### What do we do?

Inquire of and perform other review procedures related to management's plans to mitigate the matter(s) and whether the going concern basis of accounting is appropriate

### Why do we do this?

Management may have plans that effectively mitigate events and conditions that raise substantial doubt regarding an entity's ability to continue as a going concern. We inquire and perform other procedures to determine whether the going concern basis of accounting is appropriate for the interim financial information and that disclosures have been made in conformity with the applicable financial reporting framework.

## Execute the Audit

What do we mean by 'management's plans' in relation to its going concern evaluation? [ISA | 4242.1300]

Management's plans are activities that management has the intent and ability to perform that will mitigate the adverse effects of the events or conditions that raise substantial doubt if successfully implemented.

What are some examples of management's plans in relation to its going concern evaluation? [ISA | 4242.12052]

Management may have plans to:

- liquidate assets;
- borrow money or restructure debt, including plans to remediate a covenant breach;
- reduce or delay expenditures;
- increase capital;
- involve support by third parties, a parent company, the entity's owner manager or other related parties; or
- grow revenue or increase gross margins.

What interim review procedures do we perform over management's plans to mitigate events or conditions that raise substantial doubt about the entity's ability to continue as a going concern? [ISA | 4242.1400]

When we are aware of events or conditions that raise substantial doubt, we inquire of management regarding:

- their plans for future actions based on its going concern evaluation,
- the feasibility of these plans,
- whether they believe that the outcome of these plans will improve the situation.

In some circumstances, we may determine it is necessary to perform other interim review procedures in addition to inquiries, such as inspecting documents or conducting inquiries with additional parties.

How can we apply professional skepticism when performing interim review procedures regarding management's plans in relation to its going concern evaluation? [ISA | 4242.14996]

Examples of how we can apply professional skepticism when performing our interim review procedures over management's plans in relation to its going concern evaluation include:

- applying our knowledge of the particular client, its circumstances and the industry within which it operates;
- objectively challenging management's plans and significant assumptions to determine whether management has realistically factored in the effects of events and conditions affecting the entity and its industry;
- thoughtfully considering the information management uses to support their assertions; and
- maintaining awareness that the entity's past experience in dealing with counterparties and obtaining financing is not indicative of future financial support.

How do we make our going concern inquiries? [ISA | 4242.1900]

Inquiries may involve:

- Considering the knowledge, objectivity, experience, responsibility, and qualifications of the individual to be questioned
- Asking clear, concise, and relevant questions
- Using open or closed questions appropriately
- Listening actively and effectively
- Considering the reactions and responses and asking follow-up questions
- Evaluating the responses. (This is an integral part of the inquiry process)

In an interim review, we remain alert for information that might cause us to believe that the interim financial information is materially misstated. If during our inquiry we become aware of such information, we adjust our planned inquiries to explore management's views on this information further and its impact on the interim review information.

We may find management's explanations plausible and perform no further procedures. In other cases, we may increase the nature or extent of our interim review procedures to resolve whether we believe the interim financial information is materially misstated.

#### What might we think about regarding the feasibility of management's plans? [ISA | 4242.2100]

We reflect on our knowledge of the entity, its environment, and other information we obtain during an interim in considering the feasibility of management's plans and whether we are aware of any potential material misstatement in the interim financial information. We may think about the following matters:

Management's plan	Matters we may think about
Plans to liquidate assets	<ul style="list-style-type: none"> <li>• support for any planned disposals of assets</li> <li>• restrictions on disposal of assets, such as covenants limiting such transactions in loan or similar agreements or encumbrances against assets</li> <li>• apparent marketability of the assets that management plans to sell</li> <li>• possible direct or indirect effects of disposal of assets</li> <li>• management's ability and intent to sell such assets at the values included in the plans</li> <li>• sufficiency and timing of cash expected to be raised from the asset disposition(s)</li> <li>• inability to terminate leases on acceptable terms</li> <li>• cash flow impacts of the costs of disposal, related taxes and foregone future cash flows from the disposal of cash generating assets.</li> </ul>
Plans to borrow money or restructure debt, including plans to remediate a covenant breach	<ul style="list-style-type: none"> <li>• the terms of financing arrangements or other executory contracts (including material and technical covenants) and whether any have been breached or may be breached in a reasonable period of time.</li> </ul>



		<ul style="list-style-type: none"> <li>• the implications of the unique provisions and restrictive covenants of the associated financing arrangements when addressing a going concern uncertainty.</li> <li>• the existence, terms and adequacy of borrowing facilities</li> <li>• whether guarantees by related parties or agreement by lenders to waive non-compliance with covenants are obtained in writing, and whether they cover at least a 12 month and one day period from the date the financial statements are issued (or the financial statements are available to be issued, when applicable)</li> <li>• availability of debt financing, including existing or committed credit arrangements, such as lines of credit or arrangements for factoring receivables or sale-leaseback of assets</li> <li>• existing or committed arrangements to restructure or subordinate debt or guarantee loans to the entity</li> <li>• management's borrowing plans and existing restrictions on additional borrowing or the sufficiency of available collateral</li> <li>• the ability of the entity to be in compliance with covenants for the year subsequent to the date the interim financial information is issued (or available to be issued, when applicable), in light of the prospective financial information presented as part of management's plans</li> <li>• whether the existence of on-demand clauses in term loans affect the classification of such liabilities on an entity's balance sheet and whether the lenders may in fact invoke such clauses, rather than continuing a practice of granting waivers</li> <li>• any written representation/confirmation from the parties to the agreement (management and the counterparty) evidencing their mutual understanding of the appropriate interpretation of specific provisions of financing arrangements and other executory contracts that require interpretation relevant to compliance with the related restrictive covenants.</li> <li>• whether cross-default provisions exist within the entity's agreements whereby a default under one agreement results in a default in a separate agreement. In other words, in certain circumstances, the violation of covenants in respect of one debt instrument could have a cascading effect on an entity's compliance with covenants in other debt instruments.</li> <li>• whether it is likely that the uncommitted funding sources necessary to meet the entity's financing requirements will be made available to the entity without experiencing a substantive disruption of operations when management's financing plans to address future liquidity needs include venture capital, private equity, commercial paper vehicles, factoring or securitizations,</li> </ul>
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	<p>unfunded loan commitments, and/or auction rate securities, and other uncommitted funding sources</p> <ul style="list-style-type: none"> <li>existing or committed funding arrangements for a "material adverse change" clause or similar provisions in the loan commitment that enables the funding to be rescinded by the counterparty</li> <li>whether currently uncommitted financing sources will be made available to the entity in sufficient amounts and at appropriate times.</li> <li>communications and agreements with financial institutions regarding the prospects of renewal or repayment of fixed term borrowings.</li> </ul>
Plans to reduce or delay expenditures	<ul style="list-style-type: none"> <li>apparent feasibility of plans to reduce overhead (e.g. existence of labor agreement restrictions) or administrative expenditures, to postpone maintenance or research and development projects, or to lease rather than purchase assets</li> <li>possible direct or indirect effects of reduced or delayed expenditures</li> <li>the level of detail of management's plans including identification of triggering events, nature of costs that will be subject to reduction, and execution method of the cost containment or reduction plan.</li> </ul>
Plans to increase capital	<ul style="list-style-type: none"> <li>apparent feasibility of plans to increase ownership equity, including existing or committed arrangements to raise additional capital</li> <li>existing or committed arrangements to reduce current dividend requests or to accelerate cash distributions from affiliates or other investors</li> <li>effects of increased ownership equity on the entity</li> <li>availability of authorized shares to issue and potential shareholder approval requirements.</li> </ul>
Plans that involve support by third-parties or the entity's owner-manager	<ul style="list-style-type: none"> <li>the existence (e.g. written confirmation or contractual agreement), legality and enforceability of arrangements to provide or maintain financial support with related and third parties;</li> <li>the solvency of the supporting party, including the ability and intent of third-parties or the entity's owner-manager to fulfill the commitment, the enforceability and sufficiency of the commitment, and the period covered by the commitment from the date the interim financial information is issued (or available to be issued, when applicable)</li> </ul>

	<ul style="list-style-type: none"> <li>Note, the term "financial support" means providing capital, loans, direct or indirect guarantees of loans or other direct or indirect injections of funds into the entity, such as through long-term commitments for purchases of goods or services.</li> </ul>
Plans involving significant revenue growth or increases in gross margins	<ul style="list-style-type: none"> <li>cash flow, profit and other relevant management forecasts</li> <li>availability of financing alternatives to fund growth initiatives (i.e. procure inventory)</li> <li>historical evidence of growth and profitability (adjusting historical evidence for current economic climate)</li> <li>sales forecasts (extent of current sales backlog)</li> <li>ability to finance significant marketing campaigns including any significant discounting activities</li> <li>industry developments, and current economic climate.</li> </ul>

## 2.2.2.2 Interim Review | Consider disclosures about going concern events or conditions [ISA | 4243]

### What do we do?

Consider the adequacy of disclosures about going concern events or conditions

### Why do we do this?

Events or conditions that raise substantial doubt on the entity's ability to continue as a going concern (including management's mitigation plan, if applicable) are usually of interest to financial statement users. We consider whether those disclosures are adequate and appropriate in accordance with the applicable financial reporting framework.

## Execute the Audit

[What disclosures does the going concern basis of accounting impact?](#) [ISA | 4243.1300]

The going concern basis of accounting pervasively affects interim financial information and may impact:

- the basis of measurement of assets, liabilities, etc. in the interim financial information;
- disclosed accounting policies;
- specific going concern disclosures; and
- other disclosures.

[How do we determine whether going concern disclosures are adequate?](#) [ISA | 4243.157589]

The adequacy of going concern disclosures depends on the applicable financial reporting framework.

As with other disclosures, we:

- reconcile going concern disclosures to accounting records

- read going concern disclosures and the interim financial information as a whole considering whether they conform with the applicable financial reporting framework and are consistent with the information we learned during our interim review procedures
- complete the relevant Interim Accounting Disclosure Checklist for the applicable financial reporting framework when required by local requirements, or otherwise perform procedures to determine the adequacy of the disclosures in the interim financial information
- complete the US Accounting Disclosure Checklist when US GAAP is the applicable financial reporting framework.

We may determine to perform additional procedures, including resolving any matters that may indicate that the interim financial information may be materially misstated.

#### What is a 'financial reporting framework'? [ISA | 4243.14974]

Interim financial information is prepared in accordance with a financial reporting framework.

A 'financial reporting framework' is a set of criteria used to determine measurement, recognition, presentation and disclosure of all material items appearing in the interim financial information.

For example, US GAAP and IFRS are commonly used financial reporting frameworks.

#### What do we do if management fails to disclose required information in the interim financial information?

[ISA | 4243.15203]

If management fails to disclose required information (a material omission) or inaccurately discloses information in the interim financial information, it constitutes a misstatement. If the misstatement is material to the interim financial information, we communicate it to management and, if applicable, those charged with governance for correction and consider the implications to our interim review report. For details, refer to the activity '[Communicate material adjustments first to management and then to those charged with governance, if applicable](#)'.

## 3 Interim Review | Perform other review procedures [ISA | 4245]

### What do we do?

Perform other review procedures to identify matters that may be relevant to the application of our interim review procedures

### Why do we do this?

We perform certain other review procedures to identify matters that may be relevant to the application of our interim review procedures, such as, reading meeting minutes, reading the other information accompanying the interim financial information, and reconciling the interim financial information to the accounting records.

## Execute the Audit

#### What are the other review procedures? [ISA | 4245.5902]

In an interim review, we perform other review procedures in addition to inquiries and analytical procedures. We:

- [Read the available meeting minutes](#)
- [Perform procedures over the interim financial information](#)
- [Make additional inquiries or perform other procedures](#)

#### What other interim review procedures may we perform? [ISA | 4245.1500]

We may perform 'audit-like procedures', such as inspecting supporting documents, depending on the circumstances and activities of the entity during the interim period.

When we identify items that cause us to believe the interim financial information may not be in conformity with the applicable financial reporting framework, we perform additional procedures to address them.

#### Is interim audit work part of our other review procedures for an interim review? [ISA | 4245.1600]

Sometimes. We may choose to perform certain audit procedures concurrently with the review of interim financial information. For example, there may be significant or unusual transactions occurring during an interim period such that we choose to accelerate our audit procedures to the time of the interim review - for example, business combinations, disposition, restructurings or significant revenue transactions. In some cases, our audit procedures also support and are relevant to our interim review, so we consider the information from these audit procedures in forming our conclusion in our interim review engagement. For example, if the audit procedures performed in an interim period indicate that there is or may be a material misstatement in the interim financial information, we consider and evaluate the impact on our interim review conclusion.

When we perform audit procedures at the same time as the interim review engagement, we include the documentation of these procedures in our audit documentation. To the extent the audit procedures also support and are relevant to our interim review, we include that documentation in the interim review documentation (refer to question 'If documentation from our audit is relevant to our review, do we include the documentation in both files?' for further discussion). We maintain separate documentation for each engagement - i.e., we maintain documentation supporting each interim review, including a fourth quarter review, separately from the audit documentation.

#### When do we perform these other review procedures? [ISA | 4245.1700]

Many of the other review procedures we perform can be executed before or simultaneously with the entity's preparation of the interim financial information. For example, it may be practicable to begin reading applicable minutes before the end of an interim period. Performing some of the review procedures earlier in the interim period also permits early identification and consideration of significant accounting matters affecting the interim financial information.

## 3.1 Interim Review | Read the available meeting minutes [ISA | 4246]

## What do we do?

Read the available meeting minutes of directors, stockholders, and appropriate committees and make inquiries when such minutes are not available

## Why do we do this?

Minutes record important matters discussed at meetings of owners, management and those charged with governance. Minutes often include decisions and discussions that are important to the entity's operations and business strategy, so reading them can help us gather information that is useful to identify matters that may be relevant to the application of our interim review procedures.

## Execute the Audit

**What types of information might we gather by reading meeting minutes?** [ISA | 4246.14616]

When we read meeting minutes, we look for information about key decisions made or important matters discussed that could have accounting or financial reporting implications to the interim financial information and summarize those items in our interim review file. The items may include information about:

- related parties;
- litigation, claims and assessments;
- significant unusual transactions;
- illegal acts;
- going concern;
- fraud risks; and
- accounting estimates.

**What types of committees generally exist?** [ISA | 4246.1400]

Entities are often governed by a board of directors with committees that focus on certain tasks or areas. These tasks generally involve monitoring and advising the entity.

Public entities typically have at least the following committees.

Committee	Description
<b>Audit committee</b>	Oversees the integrity and compliance of financial reporting
<b>Compensation committee</b>	Focuses on human resource policies and procedures, including the compensation of executive officers
<b>Nominating/corporate governance committee</b>	Sets general governance procedures, makes recommendations on new candidates for the board and other top executive positions, makes recommendations on assignments of directors to committees

Boards often form other committees — e.g. for strategy, finance, diversity, corporate social responsibility, diversity and technology.

**Do we review the minutes for all committees of the board of directors?** [ISA | 4246.14684]

No. Our focus is on those committees of the board of directors that oversee and address matters that we believe could impact the interim financial information or our interim review approach.

**What if minutes are not available?** [ISA | 4246.1500]

If the entity does not keep meeting minutes or has not prepared minutes for a particular meeting, we inquire of attendees — e.g. the secretary of the board of directors or general counsel — to understand the discussions that took place. In this situation, we may find it helpful to inquire of more than one attendee and/or inspect materials from the meeting to corroborate our inquiries about what was discussed at the meeting.

## Examples

**How might reading the meeting minutes be relevant to our review of interim financial information?** [ISA | 4246.1600]

### **Fact pattern:**

During the review of interim financial information of Entity X, the engagement team reviewed the minutes of meetings of the board of directors and its subcommittees, including the audit committee. The minutes discuss the recent closure of a manufacturing facility.

### **Analysis:**

The engagement team inquired of management regarding the potential affect from closing the manufacturing facility — e.g. potential restructuring charges and asset dispositions and impairments. Based on their inquiries, they determined the event to have a material effect on the interim financial information, which was accounted for and disclosed in the interim financial information.

## 3.2 Interim Review | Perform procedures over the interim financial information [ISA | 4248]

### What do we do?

Perform procedures over the interim financial information to determine whether the presentation of the information reported conforms with the applicable financial reporting framework

### Why do we do this?

We perform procedures over the interim financial information to determine whether, based on the results of the review procedures performed and other information that has come to our attention, the information to be reported is in accordance with the applicable financial reporting framework.

## Execute the Audit

## What procedures do we perform over the interim financial information? [ISA | 4248.5907]

We perform the following procedures over the interim financial information:

- [Read the interim financial information](#)
- [Obtain evidence that the interim financial information agrees or reconciles with the accounting records](#)
- [Complete the Interim Accounting Disclosure Checklist](#)

We also perform other procedures over other information accompanying the interim financial information (see activity '[Read the other information](#)' for further procedures)

## 3.2.1 Interim Review | Read the interim financial information [ISA | 4249]

### What do we do?

Read the interim financial information to determine whether anything comes to our attention that it does not conform with the applicable financial reporting framework

### Why do we do this?

Since we conduct our interim review over interim financial information, we read that interim financial information as part of our procedures to help us determine whether, based on the results of the review procedures performed and other information that has come to our attention, the information to be reported is in accordance with the applicable financial reporting framework.

## Execute the Audit

### What do we think about when we read the interim financial information? [ISA | 4249.1300]

When we read the interim financial information, we think about whether the form, arrangement and content of the interim financial information is appropriate.

What we evaluate	Example of matters we think about
Form: <b>the format and overall structure of the information presented</b>	<p>Examples of matters relevant to the form of the interim financial information are:</p> <ul style="list-style-type: none"><li>• whether the entity used the appropriate form required by the financial reporting framework; and</li></ul> <div><p>For example, a US SEC registrant reports their financial statements using Form 10-K, Form 10-Q, Form 20-F, etc.</p></div> <ul style="list-style-type: none"><li>• whether the entity's use of headings, subtotals and tables is appropriate and helps convey the appropriate information.</li></ul>



<p>Arrangement:</p> <p><b>the way the information is organized, ordered and presented</b></p>	<p>Example of matters relevant to the arrangement of the interim financial information are:</p> <ul style="list-style-type: none"> <li>• the classification of financial information and the underlying transactions, events and conditions; and</li> <li>• the aggregation and disaggregation of amounts.</li> <li>• whether the placement of significant disclosures is appropriately prominent;</li> <li>• whether the disclosures are appropriately labeled and cross-referenced in a manner that facilitates users to identify the relevant information; and</li> <li>• whether the information is organized in a manner that is clear and easy to understand.</li> </ul>
<p>Content:</p> <p><b>the information that is contained in the financial statements or the topics that are covered</b></p>	<p>Examples of matters relevant to the content of the interim financial information are:</p> <ul style="list-style-type: none"> <li>• the description of financial information and the underlying transactions, events and conditions;</li> <li>• the terminology used (including the title of each financial statement) compared with what is required by the applicable financial reporting framework;</li> <li>• the level of detail provided - i.e. the information is summarized in a reasonable manner, that is, neither too detailed nor too condensed;</li> <li>• the accuracy of amounts presented;</li> <li>• the relevance, reliability, comparability and understandability of information presented in the financial statements; <ul style="list-style-type: none"> <li>- whether all the information that should have been included has been included;</li> <li>- whether the information presented obscures a reader's ability to understand the matters disclosed;</li> </ul> </li> <li>• the consistency of the presentation with appropriate industry practice, or whether departures are warranted due to the entity's circumstances; and</li> <li>• the extent to which the information in the interim financial information is entity-specific and not just standard or 'boiler-plate' language.</li> <li>• whether the interim financial information, including the related notes, are informative and include relevant information about matters that may affect their use, understanding and interpretation.</li> </ul>

How do we determine whether the financial statement disclosures are appropriately entity-specific? [ISA | 4249.1500]

The use of more standard or 'boiler-plate' language in disclosures can often be insufficient and may convey the wrong message by not properly communicating the specific circumstances of the entity.

Examples of steps we may take to help us consider whether the financial statement disclosures are appropriately entity-specific are:

- use checklists, illustrative examples and other tools as a guide, not just as a checklist;
- encourage management to critically assess which information is relevant to the entity's circumstances and which information may be omitted to avoid having unnecessary information obscure necessary information;
- use our knowledge of the entity's transactions and circumstances together with professional skepticism to assess:
  - whether the disclosures of significant accounting policies are sufficiently entity-specific;

For example, does the revenue recognition policy merely repeat what the applicable financial reporting framework indicates or does it explain how it has been applied to the entity's specific transactions?

- whether the disclosures appropriately describe management's significant judgments and estimates, especially in sensitive areas;

For example, revenue recognition, remuneration, impairment, going concern, subsequent events, and contingencies.

- consider whether additional disclosures, other than those required by the financial reporting framework, are necessary for the financial statements to achieve fair presentation.

#### US GAAP | What do we consider when determining whether the disclosures in the interim financial information are adequate? [ISA | 4249.6522]

We consider the financial reporting framework when determining whether the disclosures in the interim financial information are adequate.

The interim financial information should include disclosures either on the face of the financial statements or in accompanying footnotes sufficient to ensure the interim information presented is not misleading. However, the information necessary for adequate disclosure is influenced by the form and context in which the interim financial information is presented.

For example, the disclosures considered necessary for interim financial information presented in accordance with the minimum disclosure requirements of FASB ASC 270-10-50-1, which is applicable to condensed financial statements of US public companies, are considerably less extensive than those necessary for annual financial statements that present financial position, results of operations, and cash flows in accordance with the applicable financial reporting framework.

FASB ASC 270-10-50-3 states that a presumption exists that users of summarized interim financial data will have read the latest published annual report, including the financial disclosures required by US GAAP and management's commentary concerning the annual financial results, and that the summarized interim data will be viewed in that context.

An entity may presume that users of the interim financial information have read or have readily available 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, disclosures which substantially duplicate the disclosures contained in the most recent audited financial statements, such as a statement of significant accounting policies and practices or details of accounts which have not changed significantly in amount or composition since the end of the most recently completed fiscal year may be omitted.

However, disclosure should be provided where events subsequent to the end of the most recent fiscal year have occurred which have a material impact on the entity.

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.

In addition, where material contingencies exist, disclosure of such matters should be provided even though a significant change since year end may not have occurred.

#### US GAAP | What is meant by readily available? [ISA | 4249.6523]

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

#### What do we do if management fails to disclose required information in the interim financial information? [ISA | 4249.15203]

If management fails to disclose required information (a material omission) or inaccurately discloses information in the interim financial information, it constitutes a misstatement. If the misstatement is material to the interim financial information, we communicate it to management and, if applicable, those charged with governance for correction and consider the implications to our interim review report. For details, refer to the activity '[Communicate material adjustments first to management and then to those charged with governance, if applicable](#)'.

## 3.2.2 Interim Review | Obtain evidence that the interim financial information agrees or reconciles with the accounting records [ISA | 4250]

## What do we do?

Obtain evidence that the interim financial information agrees or reconciles with the accounting records

## Why do we do this?

While we do not audit the interim financial information, it is still important that the information subject to our interim review agrees to the entity's accounting records. Accordingly, we agree the interim financial information back to the entity's accounting records, such as the general ledger or a consolidating schedule derived from the accounting records, and other supporting data in the entity's records.

## Execute the Audit

### What are an entity's accounting records? [ISA | 4250.1300]

Underlying accounting records include the general ledger and sub-ledgers, but also other information within the entity. This is often the information that is used by management to compile the interim financial information.

### What information in the interim financial information do we reconcile? [ISA | 4250.15027]

We reconcile, or agree, the interim financial information with underlying accounting records, including:

- the information in the interim financial information, including reconciling comparative information to prior audited or reviewed interim financial information;
- the disclosures to the interim financial information; and
- the presentation of the amounts in the interim financial information.

### How do we reconcile amounts in the interim financial information with the underlying accounting records?

[ISA | 4250.1400]

How we reconcile or agree amounts the interim financial information with the underlying accounting records depends on the complexity of the entity's financial reporting process.

In a smaller or less complex entity, our audit documentation may include schedules to evidence that we agreed the amounts in the interim financial information to the entity's trial balance or general ledger (GL). In a more complex entity with multiple subsidiaries, we may agree the amounts in the interim financial information to a consolidation schedule, which we reconcile to the individual trial balances or supporting ledgers for each of those subsidiaries.

Reconciling disclosures may involve checking the appropriateness of calculations and reconciling the amounts used in the calculations to the underlying accounting records, which may be the trial balance, general ledger, or other supporting documents.

### What if the entity makes post-close entries? [ISA | 4250.1500]

If the entity makes post-close entries, we first obtain an understanding of the post-close entries and determine whether to perform additional procedures over these entries to conclude on our interim review. Once we are comfortable with the recording of these post-close entries, we agree the entity's accounting records inclusive of the post-close entries to the interim financial information.

### What do we do if the interim financial information does not agree or reconcile to the entity's accounting records? [ISA | 4250.1600]

We first inquire of management on why it does not agree or reconcile. Depending upon management's response, we may perform further review procedures until we have an appropriate basis to determine whether the item causes a material misstatement to the interim financial information or not.

## 3.2.3 Interim Review | Complete the Interim Accounting Disclosure Checklist [ISA | 4251]

### What do we do?

Complete the Interim Accounting Disclosure Checklist for the applicable financial reporting framework, when required by local requirements OR complete the US Accounting Disclosure Checklist when US GAAP is the applicable financial reporting framework.

### Why do we do this?

The Interim Accounting Disclosure Checklist is a useful tool to assist in our determination of whether the interim financial information is in conformity with the applicable financial reporting framework, in all material respects.

## Execute the Audit

### What is the Interim Accounting Disclosure Checklist? [ISA | 4251.1400]

The Interim Accounting Disclosure Checklist (Interim ADC) is a useful tool that is used as a guide or 'memory jogger' to help highlight the interim disclosures required by the applicable financial reporting framework. There may be more than one Interim ADC to complete, depending on the industry and the client's business.

The Interim ADC does not replace professional judgment in determining the appropriate disclosures in accordance with the applicable financial reporting framework. It includes only select presentation requirements. Engagement teams refer to the applicable firm and professional literature for detailed presentation and disclosure requirements, especially for new disclosures or those that are of significance to the interim period.

### Do we always complete the Interim Accounting Disclosure Checklist in an interim review? [ISA | 4251.1500]

It depends. When US GAAP is the applicable financial reporting framework, the US Accounting Disclosure Checklist is completed. For all other applicable financial reporting frameworks, the Interim Accounting Disclosure Checklist is applicable when required by local requirements.

## 3.3 Interim Review | Make additional inquiries or perform other procedures [ISA | 4254]

### What do we do?

IF we become aware of information that causes us to believe the interim financial information may not be in conformity with the applicable financial reporting framework, THEN make additional inquiries or perform other procedures.

## Why do we do this?

Through our interim review procedures, we may become aware of certain transactions or disclosures included in the interim financial information that do not appear to be in conformity with the relevant financial reporting framework. In these circumstances, we perform additional inquiries or other procedures, which may include 'audit-like' procedures such as inspecting supporting documents for the related matter, in order for us to obtain a basis for us to communicate whether we are aware of any material modifications to be made to the interim financial information.

## Execute the Audit

[What information may cause us to question whether a material adjustment is necessary to the interim financial information?](#) [ISA | 4254.1300]

When a matter comes to the auditor's attention that leads the auditor to question whether a material adjustment is necessary for the interim financial information to be in conformity with the applicable financial reporting framework in all material respects, we make additional inquiries or perform other procedures. The following are examples of circumstances where we may perform additional procedures:

- Lack of or unsatisfactory responses from management to our inquiries
- Contradicting or inconsistent evidence identified from our review procedures.

[In which instances do we perform procedures beyond inquiries?](#) [ISA | 4254.1400]

When we identify items that may cause us to believe the interim financial information may not be in conformity with the applicable financial reporting framework (i.e. the interim financial information may be materially misstated), our first step is to inquire of management to obtain more information about the matter. This is especially true when the matter was not previously identified (i.e. it is a new unusual or unexpected item) and we have not already obtained information about it.

If management's responses are implausible, inconsistent with the results of our interim review procedures, imprecise, or not at a sufficient level of detail to be useful, we perform additional procedures to address the item. These additional procedures may include 'audit-like' procedures, such as inspecting supporting documents, related to the matter.

For example, if our interim review procedures lead us to question whether a significant sales transaction is recorded in conformity with the applicable financial reporting framework, we may 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 our questions.

[What are the possible outcomes of performing additional procedures?](#) [ISA | 4254.1500]

We perform additional procedures, including 'audit-like' procedures, to obtain a basis to determine whether the interim financial information requires material modification. Based on our additional

procedures, we may determine that there is no misstatement that results in further investigation or we may determine that there is a misstatement that to be evaluated under the guidance in activity '[Accumulate, communicate and evaluate identified misstatements](#)'.

We perform these additional procedures until we reach a point where we believe we have a basis for reporting whether we are aware of any material modifications that should be made to the interim financial information.

## Example

[How do we perform additional procedures?](#) [ISA | 4254.1600]

### Fact pattern

When performing analytical procedures over revenue at a manufacturing entity, the engagement team observed that there is an unusual increase in revenue during the last month of the period compared with the last months of prior periods. When the engagement team inquired of management, they responded that the increase in revenue is the result of 'increased production'.

The engagement team determined that management's response is not sufficient to help them understand the nature of the increase. Based on the revenue recognition model, shipment and not production drives revenue recognition.

### Analysis

After considering the matter and management's responses, the engagement team:

- inquires of management again to obtain an appropriate response relative to shipments in the current period as compared to the preceding period rather than production; and
- performs specific 'audit-like' procedures, including selecting sales transactions and inspecting supporting documentation, to address the risk of recording sales in the wrong period.

## Evaluation of Misstatements

### International Standards on Review Engagements: ISRE 2410.30-33

## Evaluation of Misstatements

**30. The auditor should evaluate, individually and in the aggregate, whether uncorrected misstatements that have come to the auditor's attention are material to the interim financial information.**

31. A review of interim financial information, in contrast to an audit engagement, is not designed to obtain reasonable assurance that the interim financial information is free from material misstatement. However, misstatements which come to the auditor's attention, including inadequate disclosures, are evaluated individually and in the aggregate to determine whether a material adjustment is required to be made to the interim financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.



32. The auditor exercises professional judgment in evaluating the materiality of any misstatements that the entity has not corrected. The auditor considers matters such as the nature, cause and amount of the misstatements, whether the misstatements originated in the preceding year or interim period of the current year, and the potential effect of the misstatements on future interim or annual periods.

33. The auditor may designate an amount below which misstatements need not be aggregated, because the auditor expects that the aggregation of such amounts clearly would not have a material effect on the interim financial information. In so doing, the auditor considers the fact that the determination of materiality involves quantitative as well as qualitative considerations, and that misstatements of a relatively small amount could nevertheless have a material effect on the interim financial information.

## How do we comply with the Standards? [ISA | KAEGHWC]

### 1 Interim Review | Accumulate, communicate and evaluate identified misstatements [ISA | 4267]

#### What do we do?

Accumulate, communicate and evaluate identified misstatements

#### Why do we do this?

If we fail to accumulate, communicate and evaluate identified misstatements appropriately, we risk reaching the wrong conclusion.

#### Execute the Audit

How do we accumulate, communicate and evaluate identified misstatements in an interim review? [ISA | 4267.1300]

We:

- [evaluate all identified misstatements](#), including:
  - evaluating the nature and circumstances of the misstatement, including fraud;
  - determining a best estimate of the misstatement; and
  - evaluating whether the misstatement is clearly trivial and/or material
- [accumulate misstatements that are not clearly trivial in the SRM](#);
- [communicate accumulated misstatements to management and request their correction](#); and
- [evaluate materiality of uncorrected misstatements](#).

When we understand the nature and circumstances of a misstatement, we may become aware of other possible misstatements in the interim financial information. We cannot ignore this information and may determine to perform additional procedures.

For example, we may determine that a misstatement of the interim financial information occurred due a deficiency in an internal control. The discovered control deficiency may indicate that there may be other misstatements in the interim financial information. We perform additional interim



review procedures to determine whether we are aware of other material misstatements due to the control deficiency.

### How is accumulating, communicating and evaluating misstatements in an interim review engagement different from an audit engagement? [ISA | 4267.15209]

Since the nature of our interim review procedures are not the same as audit procedures, we may identify misstatements differently. But, for the most part our response to them is the same and we consider similar factors when evaluating the materiality of misstatements.

One distinction in an interim review engagement is that we may evaluate the materiality of the misstatement in the context of the current interim period and, if applicable to the financial reporting framework, to the cumulative interim periods to date.

### What is a misstatement? [ISA | 4267.1500]

A misstatement, if material individually or in combination with other misstatements, causes the interim financial information not to be presented fairly in conformity with the applicable financial reporting framework.

A misstatement may relate to a difference between the reported amounts, classification, presentation, or disclosure of a financial statement item and the amount, classification, presentation, or disclosure reported in conformity with the applicable financial reporting framework.

### How do we determine whether a misstatement exists? [ISA | 4267.1400]

To determine whether a misstatement exists, we look at the applicable financial reporting framework - i.e. applicable accounting principles. Without the financial reporting framework, we would have no measure against which to assess whether a misstatement exists.

### What is the applicable financial reporting framework? [ISA | 4267.14949]

The applicable financial reporting framework is the financial reporting framework adopted by management and, when appropriate, those charged with governance in the preparation of the interim financial information, that is acceptable in light of the nature of the entity and the objective of the interim financial information, or that is required by law or regulation.

### What is a 'financial reporting framework'? [ISA | 4267.14950]

Interim financial information is prepared in accordance with a financial reporting framework.

A 'financial reporting framework' is a set of criteria used to determine measurement, recognition, presentation and disclosure of all material items appearing in the interim financial information.

For example, US GAAP and IFRS are commonly used financial reporting frameworks.

### Who may identify misstatements? [ISA | 4267.1600]

Misstatements may be identified by:

- us, including specific team members (e.g. IT Audit or tax), KPMG specialists, and others under our direction;
- component auditors;

- internal auditors or others under the direction of management or those charged with governance;
- management or other employees;
- external parties engaged by management - e.g. management's specialists, consultants and other auditors; or
- other external parties - e.g. regulators, customers and whistle-blowers.

#### What are the types of misstatements that may be identified? [ISA | 4267.14021]

The nature of the misstatements may vary. They could be:

- misstatements due to:
  - error - i.e. unintentional misstatement; or
  - fraud - i.e. intentional misstatement;
- misstatements in:
  - accounts - i.e. monetary misstatements; or
  - disclosures - i.e. omission of disclosures or presentation of inaccurate or incomplete disclosures;
- misstatements that:
  - are factual; or
  - represent our best estimate of the total misstatement in an account, i.e. projected misstatements when using audit sampling and judgmental misstatements related to accounting estimates;
- classification misstatements that relate to:
  - accounts within the balance sheet only;
  - accounts within the income statement only; or
  - items within the same activity (operating, investing, financing) in the statement of cash flows; and
- misstatements that:
  - affect the income statement and/or balance sheet, as well as the statement of cash flows; or
  - result from preparing the statement of cash flows itself, and so only affect the statement of cash flows.

#### When do we accumulate, communicate and evaluate the misstatements identified? [ISA | 4267.1800]

When a misstatement is identified, we start accumulating, communicating and evaluating it on a timely basis. In view of the potential effect on our interim review approach and our conclusions, we consider misstatements throughout our interim review, not just at the end of the interim review.

## 1.1 Interim Review | Evaluate all identified misstatements [ISA | 4268]

### What do we do?

Evaluate whether all identified misstatements individually or in the aggregate are material and/or indicative of fraud

## Why do we do this?

We evaluate all identified misstatements, including inadequate disclosures, individually and in the aggregate to determine whether we believe there is a material misstatement in the interim financial information or whether the misstatements are indicative of fraud. Understanding the nature of a misstatement and why it occurred can be helpful to determine the impact on our interim review and conclusion (e.g. fraud, control deficiency, or other possible misstatements).

## Execute the Audit

**What does evaluating misstatements entail?** [ISA | 4268.1300]

When we identify a misstatement (including inadequate disclosure), we evaluate:

- its nature and circumstances in which it occurred (i.e. why it occurred), including whether it is indicative of fraud or has other implications for our review (this is performed for all individual misstatements, including those that we may later evaluate as clearly trivial)

For example, the nature and circumstances of a misstatement may be the result of a control deficiency or that there may be other misstatements in the interim financial information.

- whether the misstatement is not clearly trivial (and accumulate it on the SRM); and
- whether the misstatement is material to the interim financial information.

We also evaluate all accumulated misstatements in the aggregate (i.e. in the evaluation in aggregate, we do not consider clearly trivial misstatement, only the accumulated misstatements). However, our evaluation of whether misstatements are indicative of fraud in the aggregate is performed over all misstatement in the aggregate.

In an interim review, we evaluate the materiality of misstatements in the context of the current and year-to-date interim financial information, if applicable to the applicable financial reporting framework.

**Are there differences that are not misstatements?** [ISA | 4268.1400]

Yes. There may be differences that we may encounter during the interim review that we do not consider to be misstatements, for example:

- immaterial rounding differences - management booked \$20,500 for an estimate that was calculated to be \$20,450 or there is a slight difference in a disclosure due to how amounts are rounded;
- reconciling items that are appropriate based on the circumstances;
- unaddressed differences/reconciling items that management decides not to follow up on further after considering the risks, materiality, etc.

**From what may misstatements result?** [ISA | 4268.1500]

Misstatements may result from:

- an inaccuracy in gathering or processing data from which the interim financial information is prepared;
- an omission of an amount or disclosure, including inadequate or incomplete disclosures;
- a disclosure that is not presented in accordance with the applicable financial reporting framework;
- an incorrect accounting estimate arising from overlooking, or clear misinterpretation of facts;
- judgments of management concerning accounting estimates that we consider unreasonable;
- the selection and application of accounting policies or principles that we consider inappropriate;
- an inappropriate classification, aggregation or disaggregation, of information;
- the omission of a disclosure necessary to achieve fair presentation beyond disclosures specifically required by the framework; and
- fraud. Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial information to deceive users of that information. Fraudulent misstatements may arise from, for example:
  - the efforts of management to manage earnings;
  - misleading disclosures that have resulted from bias in management's judgments; or
  - extensive duplicative or uninformative disclosures that are intended to obscure a proper understanding of matters in the interim financial information.

[What do we do when we do not think that a misstatement is the result of a control deficiency?](#) [ISA | 4268.14490]

If we do not identify one or more control deficiencies related to a misstatement, we document our rationale.

Examples of situations in which a misstatement is not the result of a control deficiency are:

- When management identifies a misstatement but decides not to book it because it is not material or
- When we identify a misstatement that is the result of a non-GAAP policy of the entity.

[What do we do if we identify misstatements that are material to the interim financial information?](#) [ISA | 4268.1700]

We communicate material misstatements of the interim financial information first to management. If management does not respond appropriately, we then communicate them to those charged with governance (see activity '[Communicate material adjustments first to management and then to those charged with governance, if applicable](#)').

[When do we perform our evaluation?](#) [ISA | 4268.2000]

We perform our evaluation as the misstatements are identified; we do not wait until the end of the interim review.

[What factors do we think about in our evaluation of the misstatements identified?](#) [ISA | 4268.2100]

The table shows some factors we may think about when we evaluate the nature of an individual misstatement and the reason for its occurrence:

	Examples of factors we think about	
Nature of a misstatement	<p>Misstatements could:</p> <ul style="list-style-type: none"> <li>• arise from error or fraud,</li> <li>• be misstatements in amounts or misstatements in disclosures,</li> <li>• be an omitted disclosure,</li> <li>• be classification misstatements,</li> <li>• affect the balance sheet, the income statement and/or the statement of cash flows;</li> <li>• affect a non-significant account.</li> </ul>	Reason for a misstatement
<p>Misstatements could arise from:</p> <ul style="list-style-type: none"> <li>• matters specific to an area in the interim financial information for example: <ul style="list-style-type: none"> <li>- management's misunderstanding of accounting standards,</li> <li>- control deficiencies specific to an area,</li> <li>- fraud; or</li> <li>- an isolated human error.</li> </ul> </li> <li>• pervasive matters, such as: <ul style="list-style-type: none"> <li>- management's inappropriate assumptions or valuation methods that have been</li> </ul> </li> </ul>		

<p>widely applied by the entity,</p> <ul style="list-style-type: none"> <li>- control deficiency related to the competence of accounting and finance personnel, or</li> <li>- a widespread breakdown in internal control (e.g. issue with the control environment component)</li> <li>- management bias</li> </ul>		
--	--	--

#### What constitutes a material misstatement due to inadequate disclosure? [ISA | 4268.2200]

Within the context of the applicable financial reporting framework, inadequate disclosure may be the result of:

- material errors in amounts disclosed; and
- misleading, inaccurate or omitted information in narrative texts.

The applicable financial reporting framework outlines what is disclosed in the interim financial information. Interim financial information disclosures are usually less than those required for annual financial statements and may operate under the presumption that users have access to the audited financial statements.

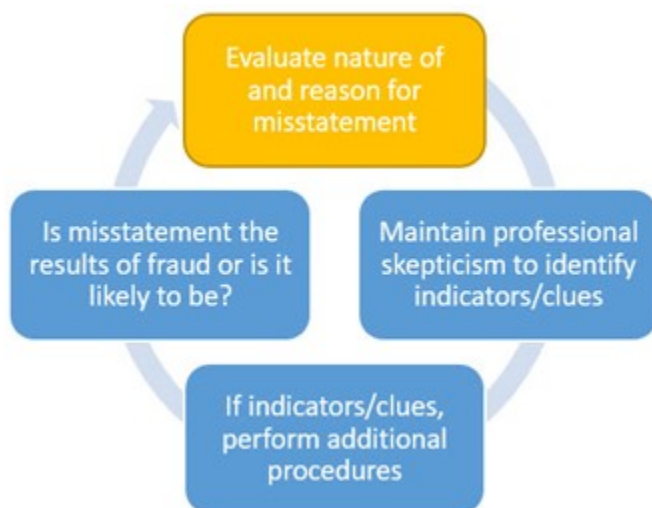
#### What makes a misstatement fraudulent? [ISA | 4268.14961]

Misstatements in the interim financial information can arise from either error or fraud. The distinguishing factor between the two is whether the underlying action is intentional or unintentional. Fraud is an intentional act.

#### How do we evaluate whether the identified misstatements are or are likely to be the result of fraud? [ISA | 4268.14962]

We evaluate whether the identified misstatements are or are likely to be the result of fraud when we are evaluating the nature of and reason for the misstatements.

However, determining whether a misstatement is or is likely to be the result of fraud is not easy, so we follow the following process:



Once we have determined that we have a sufficient understanding of the nature of an individual misstatement and the reason for which it occurred, we are in a better position to evaluate whether the identified misstatements are or are likely to be the result of fraud.

[Why may this evaluation be a challenging task and how do we try to overcome the challenge?](#) [ISA | 4268.14965]

Evaluating whether the misstatements are or are likely to be the result of fraud may be a challenging task because management's intention may be difficult to determine.

In addition, the determination of whether fraud has occurred is a legal determination, which we, as auditors, are not qualified to make. We may never know for sure whether fraud has occurred, but at least we might have some indication that fraud is likely to have



occurred.

That is why we exercise professional skepticism and remain alert for possible indications or clues that a misstatement may be the result of fraud.

Examples of possible indicators or clues are:

- missing documentation,
- the existence of fraud risk factors in the area in which we identified the misstatement,
- unsupported or unauthorized balances or transactions,
- inconsistent, vague, or implausible responses from management or employees,
- missing inventory or physical assets of significant magnitude,
- undue time pressures imposed by management to resolve the issues, and/or
- unusual delays by management in providing requested information.

The existence of these indicators and others, may tell us something about the possibility that the misstatement identified may be the result of fraud.

[What do we do when there are indicators or clues that a misstatement may be the result of fraud?](#) [ISA | 4268.14966]

When there are indicators or clues that a misstatement may be the result of fraud, we perform other interim review procedures relevant to fraud (see activity '[Communicate identified or suspected fraud matters](#)' for further information on those other fraud procedures) to determine whether fraud has occurred or is likely to have occurred.

## 1.2 Interim Review | Accumulate misstatements that are not clearly trivial in the SRM [ISA | 4269]

### What do we do?

Accumulate misstatements, including inadequate disclosure, that are not clearly trivial in the Summary of Review Misstatements

### Why do we do this?

Although we may identify a number of misstatements during the interim review, we may not necessarily accumulate all of them. Clearly trivial misstatements identified in both accounts and disclosures are not accumulated because their accumulation would never have a material effect on the interim financial information, individually or in combination with other misstatements.

### Execute the Audit

[Which misstatements do we accumulate?](#) [ISA | 4269.1300]

We accumulate all misstatements that are not clearly trivial, identified in both accounts and disclosures and that arose in both the current period and prior periods.

Misstatements in disclosures may also be clearly trivial. Even though we cannot 'add up' the misstatements in disclosures numerically, we still accumulate the ones that are not clearly trivial and evaluate their effect collectively with other misstatements identified.

[Where do we accumulate the misstatements that are not clearly trivial in an interim review?](#) [ISA | 4269.1400]

We accumulate the misstatements that are not clearly trivial in the Summary of Review Misstatements (SRM).

We use the SRM to accumulate misstatements that are not clearly trivial. It has two sections:

- *Uncorrected misstatements* section - to capture those misstatements identified by any party (us - including component auditors -, management or others) that *are not* corrected in the interim financial information; and
- *Corrected misstatements* section - to capture those misstatements identified by us - including component auditors that *are* corrected by management in the interim financial information.

We complete both the interim and year-to-date SRM schedules, if applicable.



## Do we distinguish between factual misstatements, judgmental misstatements and projected misstatements in the SRM? [ISA | 4269.1500]

Yes. To assist us in evaluating the effect of misstatements accumulated during the interim review and in communicating misstatements to management and/or those charged with governance, we distinguish between factual misstatements, judgmental misstatements and projected misstatements in the SRM.

## Which are the clearly trivial misstatements that we do not accumulate? [ISA | 4269.14904]

Determining whether a misstatement is clearly trivial involves quantitative as well as qualitative considerations. Misstatements of a relatively small amount could still have a material effect on the interim financial information.

Clearly trivial misstatements are those that are inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature, or circumstances.

Clearly trivial misstatements identified in both accounts and disclosures are not accumulated because their accumulation would never have a material effect on the interim financial information.

## Is 'clearly trivial' the same as 'not material'? [ISA | 4269.1600]

No. 'Clearly trivial' is not the same as 'not material'. Clearly trivial misstatements are of a smaller magnitude, or a wholly different nature, than those that are material. Only a subset of those misstatements that are less than materiality are likely to be considered clearly trivial, as demonstrated in the diagram below.



Furthermore, the size of a misstatement is not our only consideration to determine whether it is clearly trivial. Its qualitative factors - i.e. the nature and circumstances of the misstatement - may also influence our views on whether a misstatement is "clearly trivial".

## How do we determine whether a misstatement is clearly trivial? [ISA | 4269.1700]

We may designate an amount below which we do not aggregate misstatements because we expect their aggregation to be clearly trivial. However, in evaluating materiality we think about both quantitative and qualitative considerations.

Performing activity '[Evaluate all identified misstatements](#)' when the misstatement is identified, helps us to determine whether there are qualitative factors that may indicate that the misstatement is not clearly trivial.

Examples of qualitative matters include:

- a misstatement involving fraud and illegal acts;
- the potential effect of a misstatement on:
  - the compliance with loan covenants;
  - management's compensation - i.e. bonuses;
  - earnings per share;
- a misstatement that changes a loss into profit or vice versa.

The presence of one or more of these qualitative matters may be an indicator that the misstatement is not clearly trivial.

What do we do when there is uncertainty about whether one or more misstatements are clearly trivial?

[ISA | 4269.14422]

When there is any uncertainty about whether one or more misstatements are clearly trivial, the matter is not trivial.

## 1.3 Interim Review | Communicate accumulated misstatements to management and request their correction [ISA | 4270]

### What do we do?

Communicate accumulated misstatements to management on a timely basis and request their correction.

### Why do we do this?

Management is responsible for the preparation and fair presentation of the interim financial information.

We communicate accumulated misstatements to management on a timely basis to provide management with an opportunity to correct them. In addition, a two-way communication gives management an opportunity to provide us with further information and explanations.

We request the correction of misstatements so that management maintains accurate accounting books and records.

## Execute the Audit

What are the benefits of timely communication and request for correction of misstatements? [ISA |

4270.1300]

Communicating misstatements to management and requesting their correction as soon as practicable after we identify them provides benefits to both management and us:

	Benefits of timely communication and request for correction
--	---

<b>Management</b>	<ul style="list-style-type: none"> <li>• Enables management to make their own evaluation about whether the relevant accounts or disclosures are misstated and inform us if they disagree.</li> <li>• Allows management sufficient time to correct the misstatements, so they can a) maintain accurate accounting books and records and b) reduce the risks of material misstatement in future interim financial information and annual financial statements by eliminating the effect of prior-period misstatements in those future periods.</li> <li>• Provides management sufficient time to evaluate the cause of the misstatements and potential for additional misstatements.</li> <li>• Provides management the opportunity to evaluate whether one or more control deficiencies exist and to remediate them.</li> </ul>
<b>Us</b>	<ul style="list-style-type: none"> <li>• Facilitates earlier evaluation of the misstatements, including their nature and cause.</li> <li>• Helps to maintain a positive relationship with the entity as management may be frustrated if we do not bring up issues identified earlier in the interim review until the end of the interim review.</li> </ul>

**To whom do we communicate the misstatements and request their correction?** [ISA | 4270.1400]

We communicate misstatements and request their correction to the appropriate level of management that has the responsibility and authority to evaluate the misstatements and to take action to correct them. This is usually the entity's Controller, Chief Accounting Officer (CAO) and/or Chief Financial Officer (CFO).

If an individual misstatement or aggregated misstatements are material, and management does not correct the misstatement within a reasonable period of time, we communicate to those charged with governance that we believe a material modification to the interim financial information is necessary (see activity '[Communicate material adjustments first to management and then to those charged with governance, if applicable](#)')

**How do we communicate the misstatements and request their correction?** [ISA | 4270.1700]

We may choose to communicate the misstatements and request their correction through ad-hoc meetings, periodic meetings throughout the interim review - e.g. once a week or once every two weeks.

Meeting with management and providing them with a draft of our SRM can help facilitate a more robust discussion about the nature of the misstatements.

**What do we communicate to management regarding misstatements?** [ISA | 4270.1801]

We usually communicate to management:

- the amount of the misstatements - known and/or estimated (i.e. projected misstatements and/or judgmental misstatements related to accounting estimates);
- the accounts and/or disclosures affected;
- information we know about the nature and circumstances of the misstatements; and
- other relevant factors, if any.

Can management correct the misstatements communicated by us using our work papers as support? [ISA | 4270.1900]

No. As management is responsible for maintaining adequate support - books and records - for what is recorded in the interim financial information, it is not appropriate for management to use our work papers or analysis as support for their accounts and adjustments recorded.

Moreover, before recording a misstatement communicated by us, management may further examine an account or disclosure to determine the amount of the misstatement to correct, especially when the misstatement we identified is a projected or judgmental misstatement.

May law or regulation restrict our communication of certain misstatements? [ISA | 4270.1800]

Yes. In some jurisdictions, law or regulation may restrict our communication to management and/or those charged with governance of certain misstatements (or other related action) to avoid harming an investigation into an illegal act by an appropriate authority.

For example, laws or regulations may specifically prohibit alerting the entity when we report to an appropriate authority in accordance with anti-money laundering legislation.

What do we do if law or regulation prohibits communicating misstatements? [ISA | 4270.14452]

When law or regulation restricts our communication of certain misstatements to management and/or those charged with governance, the engagement partner consults with the risk management partner.

## 1.4 Interim Review | Evaluate materiality of uncorrected misstatements [ISA | 4271]

### What do we do?

Evaluate materiality of uncorrected misstatements

### Why do we do this?

We evaluate whether uncorrected misstatements are material, individually and in the aggregate. If we fail to evaluate misstatements appropriately, we risk reaching the wrong conclusion.

## Execute the Audit

What is an uncorrected misstatement? [ISA | 4271.1300]

An uncorrected misstatement is a misstatement that is not clearly trivial - i.e. that we accumulated - and that management has not corrected.

[Does our evaluation include all uncorrected misstatements?](#) [ISA | 4271.1400]

Yes. Our evaluation includes all uncorrected misstatements that are not clearly trivial, regardless of:

- the nature of the misstatement - e.g. misstatements in amounts or misstatements in narrative disclosures;
- who identified them - e.g. management, component auditors, or us;
- how they were identified - e.g. performing inquiries of management or other interim review procedures; or
- whether they arose in the current period or prior periods.

[How do we evaluate whether the uncorrected misstatements are material?](#) [ISA | 4271.1500]

As part of [evaluating if the uncorrected misstatements are material individually or in aggregate](#), we consider our understanding of the nature, cause and amount of the misstatement along with everything we know about the entity. In particular, we consider the factors that could reasonably be expected to influence the economic decisions of users of the interim financial information.

There are also special considerations:

- [Consider the appropriateness of offsetting misstatements](#); and
- [US GAAP | Assess error corrections in accordance with FASB 250-10-45-27](#).

[What are the methods we use to quantify and evaluate the effect of uncorrected misstatements in the financial statements?](#) [ISA | 4271.14980]

There are three methods auditors use to quantify and evaluate the effect of uncorrected misstatements on the interim financial information:

- the Iron Curtain Method (also referred to as the 'balance sheet method'),
- the Rollover Method (also referred to as the 'income statement method'), or
- the Dual Method (using both the iron curtain and rollover methods).

In an interim review, we use the same method as we do in the audit to evaluate uncorrected misstatements (see activity '[Determine the method to quantify and evaluate uncorrected misstatements](#)').

## 1.4.1 Interim Review | Evaluate uncorrected misstatements individually and in the aggregate [ISA |

4272]

### What do we do?

Evaluate whether uncorrected misstatements are material individually or in the aggregate

### Why do we do this?

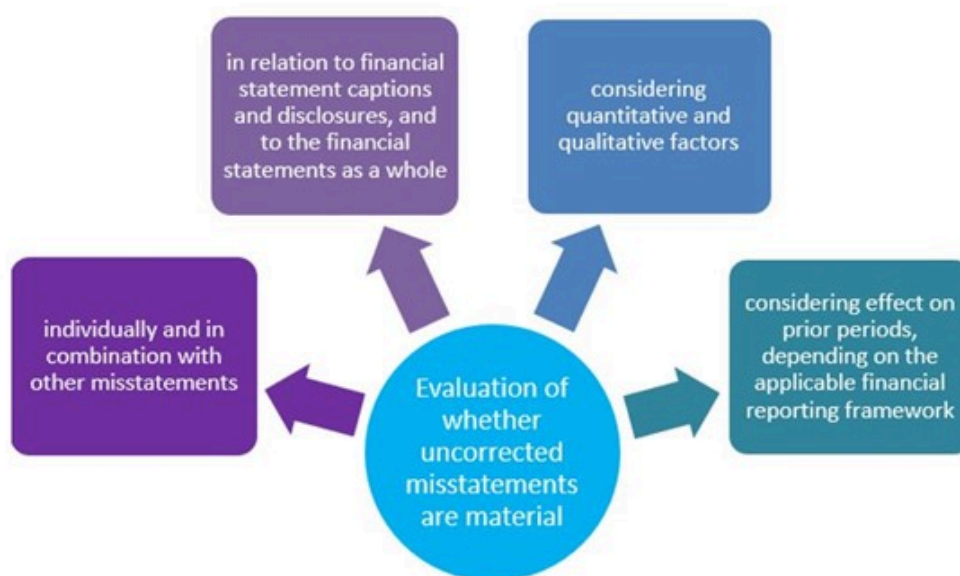
We evaluate whether uncorrected misstatements are material, individually and in the aggregate, to the interim financial information. If we fail to evaluate misstatements appropriately, there is a possibility we risk reaching the wrong conclusion.

## Execute the Audit

What factors does our evaluation of the uncorrected misstatements consider? [ISA | 4272.1300]

As part of determining if the uncorrected misstatements are material individually or in aggregate, we consider our understanding of the nature, cause and amount of the misstatement along with everything we know about the entity. In particular, we consider the factors that could reasonably be expected to influence the economic decisions of users of the interim financial information.



We consider many factors in our evaluations, such as:



Why do we evaluate uncorrected misstatements individually and in combination with other misstatements? [ISA | 4272.1400]

We evaluate uncorrected misstatements in amounts and in disclosures individually and in combination with other misstatements because:

Why we evaluate misstatements individually and in combination with others	Real life example
If we evaluate the misstatements only in aggregate, we might not notice that a misstatement by itself is material to the interim financial information as a whole when, for	Consider a situation in which a student gets an A in Math and a C in Language Arts. The student's average grade is a B. The student's report card indicates that she got a B in Math and a B in Language Arts. Although the student's average grade remains the same, both the Math and the Language Arts grades are materially misstated. Those misstatements may lead to a misunderstanding in the student's performance in each of

<p>example, it is offset by other misstatements.</p>	<p>those classes, as well as in the consistency of the student's performance overall.</p>  <p>Similarly, in an interim review, the fact that two material misstatements offset each other does not necessarily make them immaterial because two elements of the interim financial information may be materially misstated. Those misstatements could lead to a user not to be able to understand the financial position of the entity correctly.</p>
<p>If we evaluate the misstatements only individually, we might not notice that a number of misstatements in aggregate might cause the interim financial information as a whole to be materially misstated.</p>	<p>Consider a situation in which we are reading a book that has a few misprinted or missing words. Each misprint might not be a major concern if we are still able to understand the basic messages. However, if those small misprints add up to a significant amount or they relate to key words or paragraphs, they may impair our ability to understand the book.</p>  <p>Similarly, in an interim review, the combination of misstatements in the interim financial information could lead to a user not to be able to understand the financial position of the entity correctly.</p>

#### What does 'in combination with other misstatements' mean? [ISA | 4272.1500]

In combination with other misstatements' means that the misstatements are combined together in different ways based on the specific circumstances of the engagement. In doing this, we think about possible focus areas of interim financial information users.

Combining all misstatements together is not the only combination possible. We also combine the uncorrected misstatements in ways that enable us to consider whether, in relation to subtotals and totals in the interim financial information, including disclosures, they materially misstate the interim financial information taken as a whole.

For example, we can combine together uncorrected misstatements that affect the same:

- specific financial statement captions and disclosures
- subtotals in the interim financial information. For example:

- Balance Sheet: current assets, non-current assets, current liabilities and non-current liabilities.
  - Income Statement: gross income/margin, income from continuing operations and SG&A expenses.
  - Statement of Cash Flows: operating activities, financing activities and investing activities.
  - Statement of Changes in equity: other comprehensive income and additional paid-in capital.
- totals in the interim financial information. For example: total assets, total liabilities and total net income (loss).
  - qualitative characteristic. For example, misstatements that affect debt covenant calculations.
  - matter. For example, a number of misstatements in disclosures that are relevant to the same matter, considered collectively, may affect the users' understanding of that matter.

#### How do we consider quantitative factors when evaluating uncorrected misstatements? [ISA | 4272.1600]

When we think about quantitative factors, we generally focus on whether the amount/size of the misstatements, individually or in combination with others, are of such a magnitude that they are material to the interim financial information. We consider the uncorrected misstatements in comparison with:

- the specific financial statement captions and disclosures involved and
- the financial statements as a whole (e.g. subtotals and totals in the financial statements)

#### How do we consider qualitative factors when evaluating uncorrected misstatements? [ISA | 4272.1700]

When we think about qualitative factors, we focus on factors that are not related to the amount of the misstatements but could affect how a reasonable interim financial-information user views the financial information. The qualitative factors relate to the nature of the misstatements and the circumstances of their occurrence.

Consider a situation in which we are reading a book that has a few misprinted or missing words. If we find that there are only two small misprints, they may not be a significant issue. However, if one of those misprints is that the final two sentences of the book are missing, it may significantly affect a key element of the story - the ending.



Similarly, some misstatements may have a significant effect on the interim financial information, even if their amount is quantitatively small.

We evaluate whether the unrecorded misstatements are qualitatively material, individually or in combination with others, in relation to:

- the specific financial statement captions and disclosures involved; and
- the interim financial information as a whole.



[In what area are qualitative factors particularly relevant?](#) [ISA | 4272.14963]

Qualitative factors can be particularly relevant when we are evaluating misstatements within narrative disclosures. A misstatement in a narrative disclosure could represent information that is misstated or omitted from a disclosure - e.g. management's failure to disclose the estimated loss that has been accrued for a loss contingency.

Examples of when the misstatements in narrative disclosures may be material include:

- the omission of information about the events or circumstances that have led to an impairment loss (e.g. a significant long-term decline in the demand for a metal or commodity) in an entity with mining operations;
- the incorrect description of an accounting policy related to a significant item in the balance sheet, the income statement, the statement of changes in equity or the statement of cash flows; or
- the inadequate description of the sensitivity of an exchange rate in an entity that undertakes international trading activities.

[What qualitative factors do we consider in our evaluation of the materiality of uncorrected misstatements?](#) [ISA | 4272.14964]

There are further examples of qualitative factors we may think about (see question '[What qualitative factors do we consider in our evaluation of the materiality of uncorrected misstatements?](#)').

[How do the quantitative and qualitative factors interact when evaluating uncorrected misstatements?](#) [ISA | 4272.1800]

Due to the interaction of quantitative and qualitative considerations in materiality judgments, we evaluate those factors together and may determine that a misstatement is:

- material, individually or when considered together with other misstatements, even if it is not quantitatively material, or
- not material, individually or when considered together with other misstatements, even if it is quantitatively large.

[How may the prior-period uncorrected misstatements affect the current-period and the prior-period financial information?](#) [ISA | 4272.2000]

The effect of prior-period uncorrected misstatements may:

- be material to the current-period interim financial information, or
- have implications to the evaluation of prior-period annual financial statements or interim financial information (i.e. it may be necessary to correct the prior period financial statements depending on the applicable financial reporting framework).

For example, in accordance with US GAAP, it may be necessary to:

- restate the prior-period financial statements; and/or
- perform an immaterial correction of an error in the prior-period financial statements (also referred to as "little R").

## Not US GAAP | How do we evaluate the effect of prior-period uncorrected misstatements? [ISA | 4272.14489]

We evaluate the effect of prior-period uncorrected misstatements by following the requirements of the applicable financial reporting framework.

In addition, in the case of prior-period uncorrected misstatements detected in the current period, we follow the relevant procedures for when we have a subsequent discovery of facts. See chapter on subsequent events ([AU-C 560](#), [ISA 560](#)) for information on these procedures.

As indicated in those chapters, if we are considering a restatement of prior-period financial statements, we consult. See activity '[Consult with the appropriate parties in certain circumstances](#)' for further information on consultation requirements.

## US GAAP | How do we evaluate the effect of prior-period uncorrected misstatements in accordance with US GAAP? [ISA | 4272.14491]

We evaluate the effect of prior-period uncorrected misstatements in accordance with US GAAP by performing the following activities:

- [evaluate prior-period uncorrected misstatements detected in prior periods](#);
- [evaluate misstatements detected in the current period that relate to prior periods](#);
- [consult regarding immaterial corrections of errors if applicable](#).

In the case of prior-period uncorrected misstatements detected in the current period, we also follow the relevant procedures for when we have a subsequent discovery of facts. See chapter on subsequent events ([AU-C 560](#), [ISA 560](#)) for information on these procedures.

As indicated in those chapters, if we are considering a restatement of prior-period financial statements, we consult. See activity '[Consult with the appropriate parties in certain circumstances](#)' for further information on consultation requirements.

## Do we consider the effect of uncorrected misstatements on future periods? [ISA | 4272.2500]

Yes. A forward looking consideration is one of the qualitative factors we consider in our evaluation of the materiality of uncorrected misstatements. Even when uncorrected misstatements are not material to the current period, we still consider whether those misstatements could be material in future periods.

For example, misstatements may be material to future periods when:

- income statement misstatements are recorded throughout the year (e.g. on a pro-rated basis); or
- misstatements have accumulated in the balance sheet and may affect the income statement in future periods

Recording identified misstatement timely prevents issues in future periods. For example:

- depending on the applicable financial reporting framework, it may be necessary to perform future adjustments to prior-period financial statements (e.g. in certain circumstances, US GAAP requires an immaterial correction of an error in prior-period financial statements);
- the cumulative effect of prior-period uncorrected misstatements may affect our determination of aggregation risk and performance materiality in future periods - affecting our audit

approach. This is particularly true when uncorrected misstatements approach the materiality level(s) used in planning and performing the audit.

## Examples

How do we evaluate whether misstatements are material in an interim review? [ISA | 4272.2600]

### Example 1

#### Fact Pattern 1

The following adjustment is proposed to correct a misstatement identified for a retailer due to an error in calculating a new marketing fee (marketing contract commenced at the start of Q1). The error will increase pro-rata as the fee is accrued for the remaining year.

Dr.	Marketing fee	400	
Cr:	Accounts Payable		400

#### Analysis 1

The adjustment will be quantitatively material to the financial statements as a whole once the marketing fee is accrued for the full year (e.g.  $400 \times 4$  quarters = 1,600), thus the engagement team determined that the uncorrected misstatement is material to the current interim financial information, even though it is not quantitatively material to Q1.

### Example 2

#### Fact Pattern 2

The following adjustment is proposed to correct a misstatement identified for a retailer due to a revenue cut-off issue at the half year. For the first 6 months, revenue is 5,000 and net income is 200. The cut-off issue will be resolved in the next 6 month period and will not affect the annual financial statements.

Dr.	Revenue	700	
Dr.	Inventory	450	
Cr:	Cost of goods sold		450
Cr:	Accounts Receivable		700

#### Analysis 2

Although the misstatement is not material to the annual financial statements, the engagement team determined that it is qualitatively material to the half year, as the correction of the misstatement will result in a change to the earnings trend. The 250 net income statement impact of the correction

(250=700-450, assuming no tax impact) will change the 200 net income before the correction to a 50 net loss for the half year.

### Example 3

#### Fact Pattern 3

The following adjustment is proposed to correct a misstatement identified for a retailer where IT services were inappropriately capitalized in Q1. Administrative expense and PP&E balances for the quarter are 2,500 and 8,000, respectively.

Dr.	Administrative expense	150	
Cr:	PP&E		150

#### Analysis 3

The nature and type of the error is isolated and not pervasive to other IT services, will not continue in future periods, is not quantitatively material, and no other qualitative factors suggest that it material, thus the engagement team determined that the uncorrected misstatement is not material.

## 1.4.2 Interim Review | Consider the appropriateness of offsetting misstatements [ISA | 4273]

### What do we do?

Consider the appropriateness of offsetting misstatements

### Why do we do this?

We evaluate the materiality of misstatements individually, before offsetting. However, when we evaluate the materiality of misstatements in the aggregate, we may offset certain misstatements if it is appropriate to do so.

## Execute the Audit

### How do we evaluate misstatements that may offset? [ISA | 4273.1300]

First we evaluate the materiality of all misstatements accumulated in the SRM individually. If we believe it may be appropriate to offset misstatements, then we offset these misstatements before we evaluate all uncorrected misstatements in the aggregate.

### When may it not be appropriate to offset certain misstatements? [ISA | 4273.1400]

It may not be appropriate to offset:

- misstatements within the same account that may affect presentation and/or disclosures in the interim financial information;
- estimated misstatements with more precise (actual) misstatement; and
- when offsetting is not consistent with the applicable financial reporting framework.

[Is it appropriate to offset a misstatement that is material individually?](#) [ISA | 4273.1500]

If a misstatement is judged to be material by itself (individually), it is unlikely that it is appropriate to offset it with other misstatements.

For example, if revenue has been materially overstated, the interim financial information as a whole will be materially misstated, even if the effect of the misstatement on earnings is completely offset by an equivalent overstatement of expenses.

## 1.4.3 Interim Review | US GAAP | Assess error corrections in accordance with FASB 250-10-45-27 [ISA | 4275]

### What do we do?

IF evaluating the materiality of an 'out-of-period' correction of an error in an interim period that originated in the prior fiscal period, THEN compare the misstatement with the estimated income for the full fiscal year and the effect on the trend of earnings.

### Why do we do this?

If the entity's applicable financial reporting framework is U.S. GAAP, then FSC ASC 250-10-45-27 provides additional instruction to how we evaluate the materiality of an 'out-of-period' correction of an error in an interim period when the error originates in the prior-year (prior fiscal period).

## Execute the Audit

[What is an 'out-of-period' correction of an error?](#) [ISA | 4275.1300]

An 'out-of-period' correction is when an error that affects another period (e.g. the previously issued financial statements) is corrected in the current period.

[When can management make an 'out-of-period' error correction?](#) [ISA | 4275.1400]

Management may determine to make an 'out-of-period' correction of an error when the error has been deemed immaterial to the previously issued financial statements and is immaterial to the current period.

However, the way we determine whether the error is material to the current period is a bit different in an audit vs an interim review. In an audit, we compare the misstatement with the income for the full fiscal year. In an interim review, we compare the misstatement with the estimated income for the full fiscal year and the effect on the trend of earnings.

[How do we assess whether an error is material to the current period?](#) [ISA | 4275.14929]

Under U.S. GAAP, in accordance with FSC ASC 250-10-45-27, we assess whether the error is material to the current financial statements and the effect on the trend of earnings when the error originates and is uncorrected in the prior year.

However, we do not use the current period interim materiality in this evaluation. FASB ASC paragraph 250-10-45-27 indicates that in determining materiality for purposes of reporting the correction of an error, amounts are related to the estimated income for the full fiscal year and also the effect on the trend of earnings. When misstatements are not material to the full financial year, an 'out-of period' correction may be made in an interim period, even if it is material to that interim period.

Remember that the consideration of qualitative factors is also relevant to this evaluation (see question '[How do we consider qualitative factors when evaluating uncorrected misstatements?](#)').

#### How do we assess whether an error correction is material to the trend of earnings? [ISA | 4275.1600]

An evaluation as to whether an error correction has a material effect on the trend of earnings is subjective but based on quantitative and qualitative assessment, which may include:

- consecutive quarter and year-to-date trends (e.g. errors change a pattern/trend of growth in income, margin, revenues, etc.)
- quarterly information year-to-year trends (e.g. errors change a pattern/trend of growth in income, margin, revenues, etc. as compared to previous years)
- income vs. loss trends (e.g. errors change from an income to a loss making position for a particular period)
- meeting vs. not-meeting analyst expectation trends (e.g. errors would be the reason that the entity either met or did not meet analyst expectations).

#### How do we evaluate whether the correction of the error is material to the prior period annual financial statements? [ISA | 4275.1700]

We follow activity '[Evaluate misstatements detected in the current period that relate to prior periods](#)' to determine whether the error is material to the prior period.

This applies even if the error is limited to a prior period disclosure and the primary financial statements are unaffected.

#### What happens if we determine that the correction of the error is immaterial to the prior period annual financial statements but material to the current period annual financial statements? [ISA | 4275.1800]

The error cannot be corrected as an 'out-of-period' adjustment if we determine that the correction of the error is immaterial to the prior period annual financial statements but material to the current period annual financial statements. The previously issued financial statements are revised the next time they are filed as an immaterial correction of an error.

This applies even if the error is limited to a prior period disclosure and the primary financial statements are unaffected.

See activity '[Consult regarding immaterial corrections of errors if applicable](#)' for information about how we consult in certain instances when management proposes to correct the error through an immaterial correction of an error.

## Examples

#### How do I perform a FSC ASC 250-10-45-27 evaluation? [ISA | 4275.2000]

##### **Fact pattern**

The entity is being provided a regular service for which it will pay \$120 at the end of the 6-year contract. Management has not been recording the liability and the expense. Therefore, at the end of Period 4, the financial statements contain an understated liability of \$80 that has built up over 4 years (\$20 per period).

Period 1	Period 2	Period 3	Period 4	Period 5	Period 6	Total
\$20	\$20	\$20	\$20	\$20	\$20	\$120

In our prior audits, the engagement team evaluated the misstatement using the dual method and determined the effect was not material to each of the prior period's financial statements (i.e. Periods 1 - 4).

The engagement team is performing the review of the first interim-period of fiscal Period 5.

### Analysis

The engagement team evaluates the effect of the prior-period misstatement on the interim-period financial information by:

- accumulating, in the interim-period Summary of Review Misstatements (SRM), the misstatement with other misstatements that affect the interim period.
- quantifying and evaluating the misstatements using the dual method (both the rollover method and the iron curtain method):

Method	Quantification of the misstatement
<b>Iron curtain method</b>	Income statement effect (expenses): \$85 (debit) Balance sheet effect (liability): \$85 (credit)
<b>Rollover method</b>	Income statement effect (expenses): \$5 (debit) Balance sheet effect (liability): \$85 (credit) Balance sheet effect (retained earnings) \$80 (debit)  For simplification purposes, this example only includes the balance sheet and income statement effect. However, the engagement team also consider any other effect of the misstatement in the other primary financial statements and disclosures within the interim financial information.

The engagement team quantifies the misstatement and evaluates whether it is material, individually or in combination with other misstatements, considering both quantitative and qualitative factors. In this evaluation, the engagement team considers the misstatements in relation to:

- the final materiality level used in planning and performing the review - i.e. final materiality level for the interim financial information as a whole;
- the specific financial statement captions and disclosures involved; and

- the interim financial information as a whole - i.e. subtotals and totals in all primary financial statements. With respect to the statement of cash flows, the engagement team evaluates the misstatements in relation to operating, investing and financing activities.

However, the prior-period misstatement that originated in prior fiscal periods is assessed against the estimated income for the full current fiscal period and the effect on the trend of earnings. Note that \$80 of the quantifications above relate to the prior-period misstatement and \$5 is the current-period misstatement.

This is a condensed summary of our evaluation of the prior-period misstatement in the first interim period of fiscal Period 5 (income for the first interim period of fiscal Period 5 is \$250 and estimated income for the full fiscal Period 5 is \$1,000):

	Income statement error (rollover method)	Income statement error (iron curtain method)	Balance sheet error
	\$0	\$80	\$80
<b>Effect considering income for the first interim period (\$250)</b>	N/A	32%	
<b>Effect considering estimated income for the full fiscal Period 5 (\$1000)</b>	N/A	8%	

The engagement team determines that the prior-period misstatement is material to the estimated income for the full fiscal Period 5 (8%), and recording an out-of-period correction in the current period would create a material misstatement in the annual income statement. Therefore, the entity will perform an immaterial correction of an error in the prior periods' financial statements the next time they are issued, even though the prior-period misstatement is not material to the prior periods' financial statements.

If the prior-period misstatement were not material to the estimated income for the full fiscal Period 5 and to the trend of earnings, the entity could perform an 'out-of-period' correction in the first interim-period's financial information, even though the effect of the 'out-of-period' correction is material to the interim financial information (32%).

## 2 Interim Review | Group Audit or Component Audit | Obtain, review, retain and consider communications from component auditors [ISA | 4266]



## What do we do?

Obtain, review, retain and consider communications from component auditors.

## Why do we do this?

When we, as the group auditor, have determined it appropriate to involve a component auditor in an interim review, reviewing communications from the component auditor helps determine whether the component auditor performed the right procedures and identified any significant matters that are relevant for us to consider.

## Execute the Audit

[What do we obtain from component auditors involved in an interim review?](#) [ISA | 4266.1300]

We, as the group auditor, obtain, review and retain the following from each component auditor who is involved in a review:

- a Clearance Memorandum that includes:
  - certain confirmations related to the work requested to be performed, including a confirmation that the component auditor has complied with our Group Interim Review Instructions and performed the work requested by us;
  - all significant matters, including actions to address such matters and the basis for the final conclusions reached;
  - sufficient information relating to any significant matters that are inconsistent with or contradict the final conclusions;
  - any findings affecting the consolidating or combining of accounts in the consolidated interim financial information;
  - any exceptions noted in the written representations that the component auditor requested from component management;
  - all matters to be communicated to those charged with governance; and
  - any other matters that may be relevant to the group interim review or that the component auditor determines are appropriate to draw to our attention
- sufficient information to enable us to agree or to reconcile the interim financial information reviewed by the component auditor to the information underlying the consolidated interim financial statements. This is achieved by obtaining a copy of the component's interim financial information (e.g. reports and supporting schedules included in the Group Reporting Package) that was subject to the work performed by the component auditor for purposes of the group interim review
- a schedule of accumulated interim review misstatements, including both corrected and uncorrected misstatements. The schedule also includes a description of the nature and cause of each accumulated interim review misstatement, and an evaluation of uncorrected misstatements, including the quantitative and qualitative factors the component auditor considered to be relevant to the evaluation
- a summary of control deficiencies, if identified by the component auditor, through their interim review that includes all identified control deficiencies so that we can communicate to those

charged with governance and management those control deficiencies that are deemed to be significant deficiencies; and

- regarding the component auditor's overall findings or conclusions, we obtain:
  - as part of the Clearance Memorandum, certain confirmations related to the work requested to be performed, including a confirmation that the component auditor has complied with our Group Interim Review Instructions and performed the work requested by us.
  - additionally, if local laws or regulations require the group auditor to receive a component auditor's interim review report, we request and obtain such interim review report.

The Clearance Memorandum might include cross-references to other relevant supporting interim review documentation within the component auditor's files. In these cases, the component auditor also provides that relevant supporting documentation with the Clearance Memorandum.

The communications to be provided by the component auditor as summarized above are consistent with the review documentation that is prepared and assembled for all interim reviews (see activity '[Prepare, assemble and retain appropriate review documentation](#)').

#### When do we obtain these items from component auditors? [ISA | 4266.1600]

We, as the group auditor, receive these items from component auditors before the date of the group review report with sufficient time to consider and understand the impact of the findings on the group interim review. We request the component auditor to communicate any significant matters identified on a timely basis.

#### Group Audit | How do we consider the component auditors communications in an interim review? [ISA | 4266.1700]

We, as the group auditor, consider the findings provided by component auditors, as we conclude on whether it is necessary to make material modifications to the interim financial information for it to conform to the applicable financial reporting framework. These considerations include:

- evaluating any misstatements on a consolidated basis;
- evaluating any control deficiencies, individually and in the aggregate, to determine whether any rise to the level of a significant deficiency or material weakness (in interim reviews performed in accordance with PCAOB and AICPA standards);
- reviewing the significant matters raised by component auditors, individually and in the aggregate, to determine whether to make material modifications to the interim financial information or our review procedures; and
- evaluating whether evidence exists that contradicts the conclusions we or a component auditor reached, including the possible impact on other components.

## Management Representations

### International Standards on Review Engagements: ISRE 2410.34-35

## Management Representations

**34. The auditor should obtain written representation from management that:**

- (a) It acknowledges its responsibility for the design and implementation of internal control to prevent and detect fraud and error;**
- (b) The interim financial information is prepared and presented in accordance with the applicable financial reporting framework;**
- (c) It believes the effect of those uncorrected misstatements aggregated by the auditor during the review are immaterial, both individually and in the aggregate, to the interim financial information taken as a whole. A summary of such items is included in or attached to the written representations;**
- (d) It has disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to management that may have affected the entity;**
- (e) It has disclosed to the auditor the results of its assessment of the risks that the interim financial information may be materially misstated as a result of fraud;<sup>2</sup>**
- (f) It has disclosed to the auditor all known actual or possible noncompliance with laws and regulations whose effects are to be considered when preparing the interim financial information; and**
- (g) It has disclosed to the auditor all significant events that have occurred subsequent to the balance sheet date and through to the date of the review report that may require adjustment to or disclosure in the interim financial information.**

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2 Paragraph 35 of ISA 240, *The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements* explains that the nature, extent and frequency of such an assessment vary from entity to entity and that management may make a detailed assessment on an annual basis or as part of continuous monitoring. Accordingly, this representation, insofar as it relates to the interim financial information, is tailored to the entity's specific circumstances.

35. The auditor obtains additional representations as are appropriate related to matters specific to the entity's business or industry. An illustrative management representation letter is set out in Appendix 3 to this ISRE.

## How do we comply with the Standards? [ISA | KAEGHDWC]

### 1 Interim Review | Obtain written representations from management [ISA | 4257]

#### What do we do?

Obtain written representations for all interim financial information presented and periods covered by the review report

#### Why do we do this?

Management representations complement our interim review procedures. Specifically, they serve as a written record of management's acknowledgement that they have fulfilled their responsibilities, their

understanding and evaluation of review differences and their honesty and cooperation with us during the interim review. Accordingly, failure of management to provide written representations requested by the auditor can have serious implications on the interim review and on our report.

## Execute the Audit

How do we obtain written representations from management in an interim review? [ISA | 4257.1300]

We obtain written representations by:

- [Obtaining specific written representations from management for an interim review](#) ;
- [Obtaining those written representations from management in a similar manner to an audit](#) ;
- [Performing procedures to address concerns about management's representations, if necessary](#) ;
- [Performing procedures when we are unable to obtain certain written representations, if necessary](#) ; and
- [Component Audit | Obtaining written representations from component management, when applicable](#) .

## 1.1 Interim Review | Obtain specific written representations from management for an interim review [ISA | 4258]

### What do we do?

Obtain specific written representations from management relevant to the applicable financial reporting framework, industry and entity

### Why do we do this?

Management representations complement our interim review procedures. Specifically, they serve as a written record of management's acknowledgement that they have fulfilled their responsibilities, their understanding and evaluation of review differences and their honesty and cooperation with us during the interim review. Accordingly, failure of management to provide written representations requested by the auditor can have serious implications on the interim review and on our report.

## Execute the Audit

Which interim financial information period(s) do management's written representations relate to? [ISA | 4258.1300]

The written representations relate to all interim financial information and periods covered in the review report, including prior periods that are presented in the interim financial information.

[Why do we obtain management's written representations about prior periods that have already been reported?](#) [ISA | 4258.1400]

Management reaffirms to us that the written representations from previous period(s) remain appropriate before we sign our review report in the current year, as our review conclusion relates to all periods presented in the interim financial information.

**What written representations do we obtain from management if we are issuing more than one review report?** [ISA | 4258.1401]

We obtain representations from management for all review reports issued, either in one representation letter, listing the applicable set of interim financial information, or in separate representation letters for each set of interim financial information.

**Who prepares the management representation letter (MRL)?** [ISA | 4258.1500]

We prepare the MRL template and provide it to management for their review and signature.

**How do we prepare the management representation letter?** [ISA | 4258.15774]

We first select the appropriate KPMG [example MLR template](https://alex.kpmg.com/AROWeb/document/lfc/GSC_INTL_AUDDOC_DOCSEAUDIT_TOC/toc/GSC_INTL_AUDDOC_DOCSEAUDIT_TOC?tocref=GSC_INTL_AUDDOC_DOCSEAUDIT_TOC) https://alex.kpmg.com/AROWeb/document/lfc/

GSC\_INTL\_AUDDOC\_DOCSEAUDIT\_TOC/toc/GSC\_INTL\_AUDDOC\_DOCSEAUDIT\_TOC?tocref=GSC\_INTL\_AUDDOC\_DOCSEAUDIT\_TOC, depending on the applicable auditing standards, financial reporting framework used by the entity and legal and regulatory framework in which the entity operates.

We then determine any additional representations to include in the MLR template. Attachment 1 provides additional representations that we may include, depending on the other circumstances that are applicable to the entity. At a minimum, we include all required representations from the auditing standards, which are included in the KPMG example MLR template.

In some circumstances, we use nationally-tailored versions of the base representation letter and/or listing of additional representations.

Once we have compiled all applicable representations into the MRL template, we provide it to management.

**How do we determine which additional representations, beyond those which are required, are appropriate in the circumstances of our audit?** [ISA | 4258.1600]

We select additional representations based on the specific facts and circumstances of the interim review and the entity we audit. This can include additional representations to address a variety of topics, such as:

- specific circumstances related to the engagement and basis of presentation of the interim financial information (e.g. US GAAP, IFRS);
- specific types of transactions, balances, and disclosures present at the entity;
- the nonexistence of transactions/balances/disclosures or circumstances that commonly exist for entities or entities within a particular industry;
- management's intent (e.g., intention to reinvest undistributed earnings of a foreign subsidiary) or plans (e.g., going concern);
- oral representations made to us by management, explicitly or implicitly, during the course of our interim review work (e.g., disclosure of unique sales terms);
- information presented with the interim financial information that is not contemplated by the base letter (e.g., supplemental information)
- specialized circumstances or disclosures (e.g., restatement, restructuring); and

- management's selection and application of accounting policies or principles, for example non-GAAP policies/practices.

When might it be appropriate for management to modify the representations we have requested from them? [ISA | 4258.1700]

We expect that management will not make any major revisions to the letter template we provide. We review the signed letter that is provided back to us to allow us to make sure we agree with final version, including any revisions management may have made or proposed.

In some cases, management may modify a representation to further describe and represent relevant facts and circumstances, but not to change or limit its meaning contradict the interim review standards.

Base representations (i.e. required representations), are not to be removed or modified by management unless it adds an "except for" clause to highlight a matter already disclosed in the financial statements and/or disclosed to the auditor. If management modifies the base representations, we perform additional procedures (See activity '[Perform procedures when we are unable to obtain certain written representations, if applicable](#)' to determine what to do).

See activity '[Obtain written representations for all financial statement periods](#)' for examples of modified representations.

How does the management representation letter address materiality? [ISA | 4258.1800]

Management representations may be limited to matters that are considered individually or in the aggregate to be material to the interim financial information. In order for management to exclude "immaterial" items from its representations, we first come to a common understanding with management as to what is material. Materiality may be different for different representations, similar to the concept of having different materiality considerations for specific areas of the interim review.

A discussion of materiality may be included explicitly in the representation letter, in either qualitative or quantitative terms.

Does the concept of materiality apply to all management representations? [ISA | 4258.1815]

No. Materiality does not apply to:

- representations not directly related to interim financial information amounts;
- any representations regarding the possible effects of fraud on other aspects of the interim review; or
- items that involve an omission or misstatement of accounting information that, based on the circumstance, would change or influence the judgment of a reasonable person relying on the interim financial information if the omission or misstatement were adjusted

See activity '[Obtain written representations for all financial statement periods](#)' for examples of representations made regardless of materiality.

Do we attach any information to the management representation letter? [ISA | 4258.1900]

Yes. We attach a summary of uncorrected misstatements, which includes the nature, amount, and effect of the uncorrected misstatements that are not clearly trivial. We also include a listing of omissions of amounts or disclosures in the interim financial information.

We use the KPMG template, Summary of Review Misstatements - Uncorrected (SRM-uncorrected misstatement section) for the summary of uncorrected misstatements unless law, regulation, or custom requires a specified format.

While not required, we also may choose to attach a summary of corrected misstatements.

## 1.2 Interim Review | Obtain written representations in a similar manner to an audit [ISA | 4259]

### What do we do?

Obtain written representations in the same manner as we do for an audit adapted, as appropriate, for interim reviews

### Why do we do this?

We obtain representations in a similar manner to an audit engagement. Written representations form part of the information we obtain in an interim review to reach a conclusion on the interim financial information. Accordingly, the written representations we obtain are signed and dated appropriately, obtained from the appropriate parties, directed to the appropriate parties and cover the appropriate period of time.

## Execute the Audit

### When do we obtain written representations from management? [ISA | 4259.5923]

We obtain written representations from management during our completion procedures, at, or as near as practicable to, the date of the review report.

### Do we obtain representations differently in an interim review? [ISA | 4259.5924]

No, we obtain written representations in the same manner as an audit, adapted as necessary for interim reviews. This includes:

- [dating the written representations](#); and
- [affirming the addressee and signatories](#).

## 1.3 Interim Review | Perform procedures to address concerns about management's representations, if applicable [ISA | 4260]

### What do we do?

If we have concerns about the reliability of management's representations, then perform relevant procedures

### Why do we do this?



When we have concerns about management's competence, integrity, ethical values or diligence, we determine the extent and impact on the reliability of their written representations and how this affects our interim review. When we determine their representations may be unreliable, we consult with the appropriate parties to discuss these concerns and help determine the impact on the interim review.

## Execute the Audit

[What do we do if we have concerns about the reliability of management's written representations for an interim review?](#) [ISA | 4260.5908]

If we have concerns about management's competence, integrity, ethical values, or diligence, we determine whether the representations are reliable and whether they may indicate that there is a material misstatement of the interim financial information. If we deem them unreliable, then we consult with the risk management partner and determine the appropriate action. We may consider whether to withdraw from the interim review engagement or as the entity's auditor.

[What do we do if management's written representations contradict information from our interim review procedures?](#) [ISA | 4260.5910]

If representations contradict other information from our interim review procedures, we understand the circumstances of the inconsistency and whether we can resolve the difference. If we cannot resolve the difference, we reconsider our evaluation of management's competence, integrity, ethical values and diligence (refer to question '[What do we do if we have concerns about the reliability of management's written representations for an interim review?](#)' for further procedures).

## 1.4 Interim Review | Perform procedures when we are unable to obtain certain written representations, if applicable

[ISA | 4261]

### What do we do?

If we are unable to obtain certain written representations, then perform relevant procedures

### Why do we do this?

Similar to when we determine management representations are unreliable, we cannot complete our interim review when management refuses to provide the requested written representations to us. Given the potential impact this can have on our review, we consult and perform additional procedures to help us determine the appropriate of action.

## Execute the Audit

[What do we do when management refuses to provide some or all requested written representations?](#) [ISA | 4261.59255]

Our initial actions are to:

- discuss the matter with management and/or those charged with governance;



- reevaluate the integrity of management or others from whom we requested representations (refer to question [What do we do if we have concerns about the reliability of management's written representations for an interim review?](#) for further procedures); and
- consider the effect on the reliability of other representations management has made and interim review information in general.

If management continues to refuse to provide all of the representations we consider appropriate after we have discuss with them, then this represents a scope limitation. We:

- consult with the risk management partner before taking any further action; and
- consider the impact on our interim review conclusion, including whether to withdraw from the engagement or as the entity's auditor.

#### [Why do we discuss with management and others first?](#) [ISA | 4261.5927]

We first discuss with management to understand why they will not provide some or all of the representations. We may be able to resolve the matter that is withholding them from providing the representation.

For example, we may be able to resolve any misunderstandings or modify the representation in a manner that clarifies the representation and does not omit or limit a representation we have requested or is mandatory under the review standards.

## 1.5 Interim Review | Component Audit | Obtain written representations from component management, when applicable [ISA | 4262]

### What do we do?

Obtain written representations from component management, when applicable

### Why do we do this?

We obtain management representations because it is a written record of management's responsibilities for the fair presentation of the interim financial information, its understanding and evaluation of review misstatements and its honesty and cooperation with us during the interim review.

## Execute the Audit

#### [When do we obtain a management representation letter for interim reviews?](#) [ISA | 4262.1300]

As component auditors, we obtain a management representation letter when we perform interim review procedures on the component's financial information as part of the group interim review.

#### [What are our responsibilities as it relates to management representation letters for interim reviews?](#) [ISA | 4262.15040]

As component auditors, we are responsible for obtaining relevant written representations from component management as evidence to support our work performed on the interim financial information of a component for group reporting purposes. The form and timing of written representations match the form and timing of the financial information reported by us to the group auditor according to the group interim review instructions.

We are also responsible for communicating in the Clearance Memorandum any exceptions noted in the management representation letter from component management.

[How do we prepare the component management representation letter for interim reviews?](#) [ISA | 4262.15042]

We prepare the letter by starting with the appropriate KPMG template and make modifications using the guidance within the template and according to the group interim review instructions.

[Who is the component management representation letter addressed to?](#) [ISA | 4262.1800]

The component management representation letter is addressed to the component auditor.

[As of what date are component management's written representations dated?](#) [ISA | 4262.160054]

Component management dates their written representations as near as practicable to the date of the Clearance Memorandum to the group auditor but not after.

[From whom does the component auditor obtain written representations?](#) [ISA | 4262.1900]

Similar to the stand-alone representations, component management representations are requested from those with overall responsibility for the financial statements and operating matters of the entities or business units. The individuals should be knowledgeable about the matters covered by the representations, including the preparation and presentation of the financial information or financial statements.

The component auditor usually requests representations from management, but could also request them from those charged with governance if they are also responsible for the preparation of the financial information or financial statements.

## Auditor's Responsibility for Accompanying Information

### International Standards on Review Engagements: ISRE 2410.36-37

#### Auditor's Responsibility for Accompanying Information

**36. The auditor should read the other information that accompanies the interim financial information to consider whether any such information is materially inconsistent with the interim financial information.** If the auditor identifies a material inconsistency, the auditor considers whether the interim financial information or the other information needs to be amended. If an amendment is necessary in the interim financial information and management refuses to make the amendment, the auditor considers the implications for the review report. If an amendment is necessary in the other information

and management refuses to make the amendment, the auditor considers including in the review report an additional paragraph describing the material inconsistency, or taking other actions, such as withholding the issuance of the review report or withdrawing from the engagement. For example, management may present alternative measures of earnings that more positively portray financial performance than the interim financial information, and such alternative measures are given excessive prominence, are not clearly defined, or not clearly reconciled to the interim financial information such that they are confusing and potentially misleading.

**37. If a matter comes to the auditor's attention that causes the auditor to believe that the other information appears to include a material misstatement of fact, the auditor should discuss the matter with the entity's management.** While reading the other information for the purpose of identifying material inconsistencies, an apparent material misstatement of fact may come to the auditor's attention (i.e., information, not related to matters appearing in the interim financial information, that is incorrectly stated or presented). When discussing the matter with the entity's management, the auditor considers the validity of the other information and management's responses to the auditor's inquiries, whether valid differences of judgment or opinion exist and whether to request management to consult with a qualified third party to resolve the apparent misstatement of fact. If an amendment is necessary to correct a material misstatement of fact and management refuses to make the amendment, the auditor considers taking further action as appropriate, such as notifying those charged with governance and obtaining legal advice.

## How do we comply with the Standards? [ISA | KAEGHDWC]

### 1 Interim Review | Read the other information [ISA | 4252]

#### What do we do?

Read the other information and consider whether there is a material inconsistency or material misstatement in fact.

#### Why do we do this?

An entity may publish various information in the document which includes the interim financial information. We read the other information that accompanies the interim financial information to consider whether such information or the manner of its presentation is materially inconsistent with the interim financial information. We do this, since the other information may be relevant to our review. Other information that is materially inconsistent with the interim financial information may indicate an issue with the interim financial information or the other information, either of which may undermine the credibility of the interim financial information.

This helps us avoid being associated with documents that contain statements or information that are materially false or misleading, furnished recklessly, or omits or obscures required information.

## Execute the Audit

[What do we mean by 'other information'?](#) [ISA | 4252.1300]

'Other information' is both financial and non-financial information (other than the interim financial information and the interim review report) included in documents that contain the interim financial information and the interim review report.

**What is an inconsistency for purposes of an interim review?** [ISA | 4252.1500]

An inconsistency exists when other information conflicts or does not agree with information contained in the interim financial information.

A material inconsistency may raise doubt about our initial review conclusion.

**What is a misstatement of fact in the context of other information for purposes of an interim review?** [ISA | 4252.1600]

A misstatement of fact exists when other information that is unrelated to matters appearing in the interim financial information is incorrectly stated or presented.

A material misstatement of fact may undermine the credibility of the document containing interim financial information.

**What do we do if there is other information in a document that contains the interim financial information?** [ISA | 4252.157584]

We read the other information that accompanies the interim financial information to consider whether any such information or the manner of its presentation is materially inconsistent with the interim financial information.

If we identify a material inconsistency, we consider whether the interim financial information or the other information needs to be amended.

In addition, while reading the other information for the purpose of identifying material inconsistencies, an apparent material misstatement of fact may come to our attention. In that case, we discuss the matter with the entity's management. When discussing the matter with the entity's management, we consider the validity of the other information and management's responses to our inquiries, whether valid differences of judgment or opinion exist and whether to request management to consult with a qualified third party to resolve the apparent misstatement of fact.

**What do we do if an amendment is necessary in the interim financial information and management refuses to make the amendment?** [ISA | 4252.157585]

If an amendment is necessary in the interim financial information and management refuses to make the amendment, we consider the implications for the review report.

**What do we do if an amendment is necessary in the other information and management refuses to correct the material inconsistency or material misstatement of fact in an interim review?** [ISA | 4252.5912]

If we conclude that there is a material inconsistency or become aware of a material misstatement of fact and management refuses to correct it, then we consult with the risk management partner.

**What else do we do if an amendment is necessary in the other information and management refuses to correct the material inconsistency or material misstatement of fact in an interim review?** [ISA | 4252.157586]

If an amendment is necessary in the other information and management refuses to make the material inconsistency, we consider including in the review report an additional paragraph describing the material inconsistency, or taking other actions, such as withholding the issuance of the review report or withdrawing from the engagement.

For example, management may present alternative measures of earnings that more positively portray financial performance than the interim financial information, and such alternative measures are given excessive prominence, are not clearly defined, or not clearly reconciled to the interim financial information such that they are confusing and potentially misleading.

If an amendment is necessary to correct a material misstatement of fact and management refuses to make the amendment, we consider taking further action as appropriate, such as notifying those charged with governance and obtaining legal advice.

## Communication

### International Standards on Review Engagements: ISRE 2410.38-42

#### Communication

**38. When, as a result of performing the review of interim financial information, a matter comes to the auditor's attention that causes the auditor to believe that it is necessary to make a material adjustment to the interim financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor should communicate this matter as soon as practicable to the appropriate level of management.**

**39. When, in the auditor's judgment, management does not respond appropriately within a reasonable period of time, the auditor should inform those charged with governance.** The communication is made as soon as practicable, either orally or in writing. The auditor's decision whether to communicate orally or in writing is affected by factors such as the nature, sensitivity and significance of the matter to be communicated and the timing of such communications. If the information is communicated orally, the auditor documents the communication.

**40. When, in the auditor's judgment, those charged with governance do not respond appropriately within a reasonable period of time, the auditor should consider:**

- (a) **Whether to modify the report; or**
- (b) **The possibility of withdrawing from the engagement; and**
- (c) **The possibility of resigning from the appointment to audit the annual financial statements.**

**41. When, as a result of performing the review of interim financial information, a matter comes to the auditor's attention that causes the auditor to believe in the existence of fraud or noncompliance by the entity with laws and regulations the auditor should communicate the matter as soon as practicable to the appropriate level of management.** The determination of which level of management is the appropriate one is affected by the likelihood of collusion or the involvement of a

member of management. The auditor also considers the need to report such matters to those charged with governance and considers the implication for the review.

**42. The auditor should communicate relevant matters of governance interest arising from the review of interim financial information to those charged with governance.** As a result of performing the review of the interim financial information, the auditor may become aware of matters that in the opinion of the auditor are both important and relevant to those charged with governance in overseeing the financial reporting and disclosure process. The auditor communicates such matters to those charged with governance.

## How do we comply with the Standards? [ISA | KAEGHDWC]

### 1 Interim Review | Communicate matters arising from the interim review to appropriate parties [ISA | 4563]

#### What do we do?

Communicate matters arising from the interim review to appropriate parties

#### Why do we do this?

Effective two-way communications are beneficial to both those charged with governance and us. Two-way communication assists those charged with governance in fulfilling their responsibility to oversee the financial reporting process, thereby financial reporting to the benefit of users of the interim financial information.

### Execute the Audit

**What matters do we communicate with management and those charged with governance?** [ISA | 4563.1300]

We communicate with management and those charged with governance certain matters in line with the interim review standards, laws and regulations, and KPMG policies.

The following table summarizes when we communicate certain matters to management and those charged with governance. Regardless of the criteria list in this table, we communicate to those charged with governance any matters that we believe are of interest to them.

Matter	When and to whom do we communicate?	
	Management	Those Charged with Governance
<a href="#">Material modification (adjustments) to the interim financial information</a>	When material modifications are identified	When management does not correct the material

		modification within a reasonable time
<a href="#">Identified or suspected fraud matters</a>	When matters are identified, unless the fraud involves senior management or those charged with governance	When the suspected fraud involves management, employees who have significant roles in internal control, or results in a material misstatement
<a href="#">Identified or suspected non-compliance, including illegal acts</a>	When matters are identified, we communicate with management at a level above those involved in ascertaining whether suspected non-compliance has occurred.	When matters are identified, in coordination with the Risk Management Partner, unless the matter is clearly inconsequential.  If we suspect that those charged with governance are involved with the non-compliance, we communicate to the next higher level of authority at the entity.
<a href="#">Relevant matters of interest</a> , including uncorrected misstatements	Not required to be communicated to management, but usually leading practice to discuss with management prior to communicating to those charged with governance	When identified during the course of the interim review

We also communicate when we are unable to complete the interim review due to a scope limitation (see activity '[Communicate if we are unable to complete the interim review](#)' for further procedures).

#### Can we communicate additional matters? [ISA | 4563.1400]

Yes. We may choose to communicate matters identified during our interim review that go beyond the specific items from the interim review standards.

For example, we may choose to communicate matters, such as significant issues regarding governance structures or processes for significant decisions or actions by senior management that lack appropriate authorization.

#### What do we do when we communicate additional matters?

When we communicate additional matters, we may make management or those charged with governance aware that:

- identification and communication of those matters goes beyond the purpose of the interim review, which is to form a conclusion on whether we became aware of matters that may materially misstate the interim financial information,
- we did not carry out procedures with respect to those matters other than any procedures necessary to form a conclusion on whether we became aware of matters that may materially misstate the interim financial information and
- we did not carry out procedures to determine whether other such matters exist.

[Is it appropriate to discuss with management certain matters before communicating with those charged with governance?](#) [ISA | 4563.1600]

Not necessarily. In certain circumstances, discussing matters with management before communicating them to those charged with governance may be inappropriate.

For example, it is not appropriate to discuss with management:

- questions around management's competence or integrity; or
- instances of identified or suspected fraud involving senior management

before communicating them to those charged with governance.

When it is appropriate: we may decide to discuss certain matters with management or other parties, such as the entity's internal auditors, before communicating with those charged with governance.

This not only fosters a good professional relationship with management, but recognizes management's responsibility for the preparation and fair presentation of the interim financial information.

In addition, these initial discussions may clarify facts and issues and give management an opportunity to provide further information and explanations.

[Are we prohibited by law or regulation to communicate certain matters with those charged with governance?](#) [ISA | 4563.11053]

We may be. For example, in some jurisdictions, laws or regulations may restrict our communication to management and/or those charged with governance, or other related action, of certain misstatements to avoid harming an investigation into an illegal act by an appropriate authority. For example, laws or regulations may specifically prohibit alerting the entity when we are required to report to an appropriate authority in accordance with anti-money laundering legislation.

See question '[What do we do if law or regulation prohibits communicating misstatements?](#)'.

## 1.1 Interim Review | Communicate material adjustments first to management and then those charged with governance, if applicable [ISA | 4280]



## What do we do?

If we believe material adjustment is necessary to the interim financial information, then communicate the matters to management first and then to those charged with governance, if management does not respond appropriately

## Why do we do this?

There are serious implications if we believe that there are material modifications to be made to the interim financial information.

We communicate and give management an opportunity to address the material adjustments in the interim financial information before communicating them to those charged with governance. Management may be able to make the adjustment or can provide additional information and explanation for why the adjustment has not been made, which enhances our communications with those charged with governance.

Depending on the nature of the matter or when we become aware of it, we may communicate it simultaneously to management and those charged with governance

## Execute the Audit

### How do we communicate regarding material adjustments? [ISA | 4280.1300]

When we identify material modifications (adjustments) necessary for the interim financial information to be prepared in accordance with the applicable financial reporting framework, we communicate those matters to management. We also communicate them to those charged with governance if management does not respond appropriately.

We also communicate to those charged with governance material adjustments if we believe they are of interest to those charged with governance, regardless of whether management responds appropriately.

### When do we communicate to management? [ISA | 4280.1400]

We communicate most matters as soon as possible after we identify them, especially when there are potentially serious implications. Timely communication gives management adequate time to consider the matters we are raising and to determine an appropriate resolution.

### What is a material adjustment to the interim financial information? [ISA | 4280.1500]

A material adjustment of interim financial information is when there is a material misstatement of amount(s) or disclosure(s), individually or in the aggregate.

Material misstatement is assessed within the context of the applicable financial reporting framework (e.g. U.S. GAAP or IFRS) and may be a result of inadequate or omitted disclosure.

### What does a reasonable period of time mean? [ISA | 4280.14760]

What constitutes a reasonable period of time is a professional judgement. In making this judgement, we think about:

- The severity of the matter (e.g. we might prioritize resolving matters with a significant impact on our work or the interim financial information.)

- The nature of the matter (e.g. a simple matter may take less time than complex matter to consider and respond to); and
- Remaining timeframe to resolve the matter (e.g. we expect certain matters to be resolved more quickly when they are identified near the end of our interim review instead of at the beginning of our interim review).

#### When do we communicate material adjustments to those charged with governance? [ISA | 4280.1700]

After communicating material adjustments to management, we communicate them to those charged with governance if we believe:

- that management will not address them appropriately, or
- that management will not address them in a reasonable period of time.

We may also communicate material adjustments to those charged with governance, even when management has responded appropriately, if we believe that they are of interest to those charged with governance.

For example, we may communicate to management a material misstatement that our interim review procedures identified. Management may respond appropriately and correct the interim financial information. Even though management responded appropriately, we may still determine it is appropriate to communicate information regarding the material misstatement to those charged with governance because we believe that the nature and circumstances that caused the misstatement are of interest to their governance responsibilities.

#### How do we determine whether material adjustments to the interim financial information are necessary?

[ISA | 4280.14762]

A material adjustment is another way of saying the interim financial information is materially misstated. Our process for determining whether material modification is necessary involves:

- evaluating all identified misstatements (see activity '[Evaluate all identified misstatements](#)');
- accumulating misstatements that are not clearly trivial on the Summary of Review Misstatements (see activity '[Accumulate misstatements that are not clearly trivial in the SRM](#)');
- communicating these misstatements to management for correction (see activity '[Communicate accumulated misstatements to management and request their correction](#)'); and
- evaluating the materiality of uncorrected misstatement individually and in the aggregate (see activity '[Evaluate materiality of uncorrected misstatements](#)').

#### If we cannot complete the interim review, do we still communicate material adjustments that we become aware of? [ISA | 4280.1900]

Yes, we inform management of any material adjustments (material misstatements) that we become aware of regardless of whether we are able to complete the interim review or whether management issues the interim financial information before our interim review is complete.

Also, if management does not respond appropriately to our communication of material adjustments, we also communicate it those charged with governance.

## 1.2 Interim Review | Communicate identified or suspected fraud matters [ISA | 4284]

### What do we do?

Communicate identified or suspected fraud matters to management and those charged with governance

### Why do we do this?

We communicate fraud related matters so an entity, including those charged with governance, can investigate the matter and take corrective actions when necessary.

### Execute the Audit

#### What procedures do we perform when we identify or suspect fraud? [ISA | 4284.1301]

When we identify or suspect fraud as part of the interim review, we perform relevant fraud procedures as in an audit of financial statements (see activity '[Perform additional procedures when we identify or suspect a fraud](#)').

#### What fraud related matters do we communicate? [ISA | 4284.1400]

We communicate the following fraud related matters:

- identified actual fraud or information that indicates that a fraud may exist (i.e., suspected fraud); and
- any other matters related to fraud, that we believe are relevant to the responsibilities of management and those charged with governance of the entity. These matters may include fraud risks with continuing implications for internal controls and deficiencies in internal controls that address fraud risks.

#### Who do we communicate identified or suspected fraud to? [ISA | 4284.1501]

We communicated identified or suspected fraud to:

- the appropriate level of management; and
- those charged with governance, when:
  - the identified or suspected fraud involved management;
  - the identified or suspected fraud involves employees who have significant roles in internal control over financial reporting; or
  - the identified or suspected fraud results in, or is expected to result in, a material misstatement in the financial statements;
- to the next higher level of authority (if it exists) when we suspect that those charged with governance are involved in fraud; or
- to parties outside the entity if there is a professional or legal responsibility to do so.

#### What is the appropriate level of management to communicate identified or suspected fraud? [ISA | 4284.1300]

Ordinarily, the appropriate level of management is at least one level above the person(s) who appear to be involved with the identified or suspected fraud.

We also take into account factors such as the likelihood of collusion and the nature and magnitude of the suspected fraud. If we believe there is a likelihood of collusion or the nature and magnitude of the fraud may be pervasive and involve other members of management, we may determine it is necessary to communicate the matter directly to those charged with governance.

Entities may designate certain members of management, such as a Chief Compliance Officer, who are responsible for the prevention and detection of fraud at an entity and the communication of actual or suspected fraud to those charged with governance of the entity. When we have no reason to believe these individuals are involved in the actual or suspected fraud, we may communicate actual or suspected fraud to these individuals.

#### When do we communicate identified or suspected fraud? [ISA | 4284.1900]

We communicate the matter in a timely manner (i.e. as soon as practicable) regardless of the significance of the matter and prior to the issuance of our report/completion of our interim review.

In certain situations, there may be laws or regulations that limit our ability to communicate actual or suspected fraud to management. Laws or regulations may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity. For example, when we are required to report the fraud to an appropriate authority pursuant to anti-money laundering legislation.

In these circumstances, the issues may be complex and it may be appropriate to obtain legal advice - for example, from the Office of General Counsel.

#### What if we have doubts about the integrity or honesty of those charged with governance? [ISA | 4284.11715]

When we have doubts about the integrity or honesty of those charged with governance, we may consult with legal counsel, such as OGC, to assist in determining the appropriate course of action.

#### How do we communicate fraud to management or those charged with governance? [ISA | 4284.2100]

We communicate with management and those charged with governance either orally or in writing, depending on the circumstances, unless specifically stated.

Even if we communicate in writing, having a dialogue with those charged with governance is an important factor in effective two-way communications.

Due to the nature and sensitivity of fraud involving senior management, or fraud that results in a material misstatement in the interim financial information, we may choose to report such matters in writing.

#### What information do we include in our communication of identified or suspected fraud? [ISA | 4284.14841]

Our communications related to fraud include (i) a description of the fraud, (ii) the circumstances surrounding the fraud, and (iii) the effect of the fraud on the interim financial information. Our communications may also include a description of the possible consequences of the fraud and the recommended course of action to be followed, when appropriate.

#### What factors do we think about to determine the form of the communication? [ISA | 4284.14843]

We think about the following factors in determining the form of the communications:

- how significant the matter is;
- whether the matter will be included in the review report;
- whether the matter has been satisfactorily resolved;
- the expectations and desires of those charged with governance, including arrangements made for periodic meetings or communications with us;
- the amount of ongoing contact and dialogue we have with those charged with governance;
- whether there have been significant turnover within those charged with governance;
- whether the nature of the matter is complex;
- our experience with the past effectiveness of oral and written communications with those charged with governance; and
- whether, in our professional judgment, oral communication is inadequate based on the circumstances.

In the case of interim reviews of smaller entities, we may communicate with those charged with governance in a less structured manner than in the case of larger entities.

Who do we consult with when there is no higher level of authority to communicate fraud to, we believe that the communication may not be acted upon or we are unsure as to the person to whom to report? [ISA | 4284.1500]

The following table summarizes the parties we consult with based upon the KPMG member firm performing the audit and the characteristics of the client and the engagement.

When the audit is performed by:	In accordance with the following auditing standards:	Involving:	Consult with:
U.S. firm	PCAOB	All clients and engagements	RPPP; DPP; and OGC
	U.S. GAAS / ISA / other auditing standards	Audits of Global accounts  Audits where the U.S. firm is participating, and the U.S. firm is not group auditor/lead auditor	RPPP; DPP; and OGC
		All other clients and engagements	BUPPP - audit; DPP; and

			OGC
Non-U.S. firms	PCAOB / U.S. GAAS / ISA / other auditing standards	All clients and engagements	<p>Risk Management Partner</p> <p>Note: The Risk Management Partner is responsible for consulting with the member firm's general counsel and / or external counsel as stated under Policy 14.2.7 of the Global Quality &amp; Risk Management Manual. Local member firms may have consultation with additional parties based on local risk management policies and procedures.</p>

What do we do to report fraud to parties outside the entity? [ISA | 4284.11738]

When we report fraud to parties outside the entity we:

- [Consult with the appropriate parties when considering disclosure of fraud to parties outside the entity](#)
- [Disclose identified or suspected fraud to relevant external parties](#)

## 1.3 Interim Review | Communicate identified or suspected non-compliance matters, including illegal acts [ISA | 4285]

### What do we do?

Communicate identified or suspected non-compliance matters, including illegal acts to management and those charged with governance

## Why do we do this?

We communicate actual and suspected non-compliance, including illegal acts, to those charged with governance to better enable them to effectively fulfill their oversight responsibilities regarding the financial reporting process. If those charged with governance are involved in the actual or suspected non-compliance, we follow a clear escalation process for our reporting.

## Execute the Audit

What procedures do we perform when we identify or suspect non-compliance, including illegal acts? [ISA | 4285.14832]

When we identify or suspect non-compliance, including illegal acts as part of the interim review, we perform relevant procedures and consultations required in an audit of financial statements, which includes:

- Ascertaining whether non-compliance has occurred (see activity '[Ascertain whether non-compliance with laws and regulations, including illegal acts, has occurred](#)');
- Perform additional procedures if satisfactory information is not provided by management (see activity '[Perform additional procedures if satisfactory information is not provided](#)');
- Evaluate the possible effect of actual or suspected non-compliance (see activity '[Evaluate the possible effect of actual or suspected non-compliance, including illegal acts](#)'); and
- Perform additional steps related to the entity's response (see activity '[Evaluate the entity's response to non-compliance, including illegal acts](#)').

What procedures do we follow regarding communication if we determine an illegal act has or is likely to have occurred? [ISA | 4285.14833]

If we determine an illegal act has or is likely to have occurred, perform the following:






- Communicate non-compliance, including illegal acts, to appropriate parties (see activity '[Communicate non-compliance, including illegal acts, to appropriate parties](#)'); and
- Communicate non-compliance, including illegal acts, to external parties as required (see activity '[Communicate non-compliance, including illegal acts, to external parties as required](#)').

Who is the appropriate party to communicate to regarding non-compliance, including illegal acts (actual and suspected)? [ISA | 4285.14834]

We communicate the non-compliance, including illegal acts, to management and those charged with governance unless the matter is clearly inconsequential.

If we believe that certain person(s) or groups are involved in the matter of non-compliance, including illegal acts, we communicate in accordance with the following:

<b>Senior management are involved</b>	<b>Sub-group of those charged with governance are involved</b>	<b>All those charged with governance are involved</b>
---------------------------------------	--	---

		
Communicate with Audit Committee or similar body	Communicate to members of those charged with governance e.g. Board of Directors	Communicate to next higher authority if one exists 
		No higher authority exists 
		Discuss with RMP and consider whether to obtain legal advice

When we perform our communications, we take care not to inadvertently tip-off persons(s) involved with an act of non-compliance.

**When do we communicate instances of non-compliance, including illegal acts?** [ISA | 4285.1700]

We communicate instances of non-compliance, including illegal acts, at appropriate times throughout the interim review. If, however, we believe the non-compliance, including illegal acts, is believed to be intentional and material, we communicate the matter as soon as possible.

**What do we communicate to those charged with governance regarding non-compliance, including an illegal act?** [ISA | 4285.1900]

Our communication to those charged with governance regarding identified or suspected non-compliance with laws and regulations, including illegal acts, include:

- a description of the identified or suspected non-compliance with laws and regulations, including illegal acts
- the circumstances of its occurrence
- the effect on the interim financial information



- the possible consequences of the non-compliance with laws and regulations, including illegal acts
- the recommended course of action to be followed, when appropriate.

**How do we communicate an instance of non-compliance including an illegal act to those charged with governance?**

We communicate identified or suspected non-compliance with laws and regulations, including illegal acts, either orally or in writing. If we communicate orally, we document our communication and include the information in the interim review files.

**When do we communicate an instance of non-compliance to those charged with governance?**

We communicate as soon as possible.

**Do we communicate if we do not know all the circumstances regarding an instance of suspected non-compliance or illegal acts?**

When suspected or actual non-compliance with laws and regulations, including illegal acts, is identified, we do not wait until an investigation is completed to communicate the matter to those charged with governance. We communicate the matter to those charged with governance, including the known facts surrounding the entity's investigation into the matter, to inform those charged with governance.

**Is it appropriate to discuss with management certain matters relating to an instance of actual or suspected non-compliance including illegal acts before communicating with those charged with governance?** [ISA | 4285.2000]

We may decide to discuss with management (or other parties, such as the entity's general counsel or internal auditors) certain matters before communicating with those charged with governance. This not only fosters a good professional relationship with management, but also recognizes management's responsibility for the preparation and fair presentation of the interim financial information. In addition, these initial discussions may clarify facts and issues and give management an opportunity to provide further information and explanations.

However, if we believe that management were involved in the non-compliance with laws and regulations, including illegal acts, we may choose to instead communicate directly with those charged with governance.

**Do we communicate instances of non-compliance including illegal acts already communicated by management?** [ISA | 4285.1800]

Yes, we still make our communications about non-compliance with laws and regulations that come to our attention. Management's communications to those charged with governance of matters do not relieve us of our responsibility. Equally, our communications do not relieve management of their responsibilities.

However, management's communication of these matters may affect the form or timing of our communication with those charged with governance. We still inform those charged with governance about the matters involving non-compliance with laws and regulations; however, we may not repeat specific details about the matters that were already communicated by management provided we were present.

For example, we may attend meetings where management inform those charged with governance of instances of non-compliance with laws and regulations, including illegal acts. Our communication to those charged with governance, in this instance, may be to communicate to those charged with governance any additional information that we are aware regarding the matter, or communicate that we are not aware of any further information regarding the matter.

What if we believe the communication regarding an instance of non-compliance including illegal acts may not be acted upon or we are unsure as to whom to report? [ISA | 4285.2200]

We consult with the following parties, based on the type of engagement:

Location	Type of interim review	Consulting parties
<b>U.S.</b>	<b>PCAOB interim review</b>	<ul style="list-style-type: none"> <li>• Regional Professional Practice Partner</li> <li>• DPP</li> <li>• OGC</li> </ul>
	<b>Global accounts</b>	
	<b>Interim reviews where U.S. firm is participating, and U.S. firm is not group engagement team</b>	
	<b>All others</b>	<ul style="list-style-type: none"> <li>• Business Unit Professional Practice Partner</li> <li>• DPP</li> <li>• OGC</li> </ul>
<b>International</b>	<b>All audits</b>	<ul style="list-style-type: none"> <li>• Risk Management Partner (including discussion on whether to obtain legal advice)</li> </ul>

## 1.4 Interim Review | Communicate relevant matters of interest to those charged with governance [ISA | 4289]

### What do we do?

Communicate relevant matters of interest to those charged with governance

## Why do we do this?

Our interim review procedures are not designed to identify all matters that we may communicate to those charged with governance during an audit engagement. However, if we become aware of a relevant matter of interest to those charged with governance in our interim review engagement, we communicate this in a timely manner to allow those charged with governance to address the matter.

## Execute the Audit

### How do we determine whether to communicate a matter during an interim review? [ISA | 4289.1300]

We communicate relevant matters that we believe are of interest to those charged with governance during an interim review.

To determine whether a matter is relevant to communicate, we think about whether:

- this matter is important and relevant to those charged with governance overseeing the financial reporting process;
- those charged with governance have been adequately informed through other reporting processes;
- those charged with governance have requested to be informed of certain matters by us; and
- to communicate the matter again during the interim period when we have communicated the matter previously.

### Do we communicate uncorrected misstatements to those charged with governance in an interim review?

[ISA | 4289.1400]

Yes, we communicate uncorrected misstatements that we accumulate during our interim review, including the effect that they may have individually or in the aggregate on the review report.

### What are examples of matters that may be relevant to communicate to those charged with governance during an interim review? [ISA | 4289.1500]

The following are matters that may be of interest to those charged with governance that may be relevant to communicate during an interim review:

- Matters impacting independence considerations since our previous communications;
- The effect of significant events, transactions, and changes in accounting estimates that we considered when conducting the review of interim financial information
- A change in a significant accounting policy affecting the interim financial information
- Adjustments that either individually or in the aggregate could have a significant effect on the entity's financial reporting process
- Difficulties encountered in performing the audit
- Disagreements with management
- Bias in management's judgements about the amounts and disclosures in the interim financial information
- Difficult or contentious matters for which we have consulted
- Management's consultations with other accountants
- Significant deficiencies in internal control
- Matters that may affect the form and content of our review report

How do we communicate the matters that we do in an audit in an interim review? [ISA | 4289.1600]

We communicate them orally or in writing (see activity '[Communicate matters to those charged with governance in a timely manner and document them appropriately](#)' for further information on the form of our communications with those charged with governance).

## 2 Interim Review | Communicate matters to those charged with governance in a timely manner and document them appropriately [ISA | 4293]

### What do we do?

Communicate matters to those charged with governance in a timely manner and document them appropriately

### Why do we do this?

Timely communication throughout the interim review contributes to an effective two-way dialogue between those charged with governance and us. Timely and professional communications may also help meet client expectations.

We document our communication with those charged with governance to enable an experienced auditor, having no previous connection with the engagement, to understand the communications made.

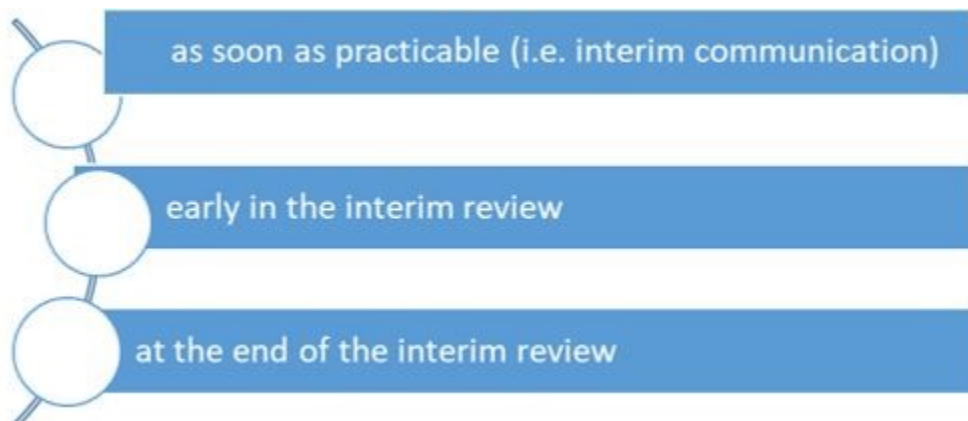
## Execute the Audit

When do we communicate with those charged with governance? [ISA | 4293.1301]

If there are specific timing requirements, we follow those requirements. If there are no specific timing requirements, we communicate in a timely manner.

What is the appropriate timing for the communications with those charged with governance when there are no specific timing requirements? [ISA | 4293.14953]

The appropriate timing for communications varies with the circumstances of the engagement. The communication may be:



We perform some communications early in the interim review and others at the end of the interim review. However, sometimes, we may communicate certain matters as soon as possible after we identify them (i.e. interim communication).

Consider a situation in which a student is receiving bad grades and may fail the class if his performance continues. The teacher may decide that communicating the student's performance to his parents sooner rather than later may be beneficial so that they are able to help their child to improve. Communicating the child's grades to the parents through the report card at the end of the school period may be too late to enable the parents to assist.

Similarly, communicating certain matters to those charged with governance during the course of the interim review rather than at the end of the engagement may enable them to take corrective action as soon as possible. At the end of the engagement, it may be too late.



#### What factors do we think about when determining whether we need to perform an interim communication? [ISA | 4293.1501]

Factors we may think about when determining whether to issue an interim communication are:

- Significance: the significance and nature of the matters noted;
- Urgency for correction: the urgency with which those charged with governance need to correct the matter;
- Additional information needed: whether it is necessary for us to obtain additional information about the matter from those charged with governance;
- The awareness of those charged with governance: whether those charged with governance are already aware of the matter and have begun corrective action; and
- Oversight responsibilities: whether the communication will be an important factor in enabling those charged with governance to discharge their oversight responsibilities; and
- The expectations of those charged with governance: the expectations of those charged with governance, including arrangements made for periodic meetings or communications with us.

#### What form of communication do we use when communicating with those charged with governance? [ISA | 4293.1300]

We communicate with those charged with governance either orally or in writing, depending on the circumstances, unless specifically stated.

Even if we communicate in writing, having a dialogue with those charged with governance is an important factor in effective two-way communications. Therefore, written communications lead to an active two-way discussion with those charged with governance.

## What factors may we think about in determining the form of the communications, when we have an option? [ISA | 4293.2000]

When we have an option, we may think about the following factors in determining the form of the communications:

- how significant the matter is,
- whether the matter will be included in our review report,
- whether the matter has been satisfactorily resolved,
- whether management has previously communicated the matter,
- the expectations and desires of those charged with governance, including arrangements made for periodic meetings or communications with us,
- the amount of ongoing contact and dialogue we have with those charged with governance,
- whether there have been significant turnover within those charged with governance,
- whether the nature of the matter is complex
- our experience with the past effectiveness of oral and written communications with those charged with governance; and
- whether, in our professional judgment, oral communication is inadequate based on the circumstances.

In the case of interim reviews of smaller entities, we may communicate with those charged with governance in a less structured manner than in the case of larger entities.

## What tools are available in communicating with those charged with governance? [ISA | 4293.1500]

When we communicate in writing, the [Audit Committee Communication toolkit](https://alex.kpmg.com/AROWeb/document/top/Intl_AuditCommitteeToolkit) https://alex.kpmg.com/AROWeb/document/top/Intl\_AuditCommitteeToolkit is available. Member firms may also have communication templates in accordance with local law or regulation.

## How do we document our communications with those charged with governance? [ISA | 4293.6611]

Even though we document our communications with those charged with governance regardless of the form of communication, the documentation varies depending on whether we communicate orally or in writing.

	How we document the communications
<b>Communications made in writing</b>	When we communicate in writing, we include a copy of the written communication in the interim review documentation.
<b>Communications made orally</b>	<p>When we communicate orally, we include in the interim review documentation:</p> <ul style="list-style-type: none"> <li>• what was communicated</li> <li>• when was communicated and</li> <li>• to whom we communicated</li> </ul> <p>We include sufficient information in the interim review documentation to enable an experience auditor, having no previous connection with the engagement, to understand the communications made.</p>

	<p>Documentation of oral communications may include, depending on the circumstances:</p> <ul style="list-style-type: none"><li>• a memorandum,</li><li>• PowerPoint presentations,</li><li>• a bullet point agenda. We may document just the areas discussed when efforts to capture the details of oral communication in writing may be incomplete and subject to varying interpretations.</li><li>• a copy of minutes of those charged with governance prepared by the entity.</li></ul> <p>If we include in our documentation a copy of minutes of those charged with governance's meetings, those minutes contain an accurate description of the communications performed.</p> <p>Inconsistencies between the minutes prepared by the entity and what we communicated may cause us to perform an additional communication with those charged with governance, to the extent considered necessary in the circumstances.</p>
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## 3 Interim Review | Determine an appropriate response if TCWG do not respond appropriately [ISA |

4295]

### What do we do?

If those charged with governance do not respond appropriately to our communication within a reasonable period of time, then consider whether to modify our report, resign from the engagement, or resign from the client.

### Why do we do this?

When both management and those charged with governance have failed to address matters that we have raised to them, we consider whether to take further action.

## Execute the Audit

What do we consider when those charged with governance do not respond appropriately to our communications? [ISA | 4295.14786]

We consider whether to:

- modify our review report;
- resign from the interim review engagement; or
- resign from serving as the entity's auditor.

In considering the appropriate course of action, we consider whether withdrawal is possible under applicable law or regulation.

What do we think about when considering how to respond? [ISA | 4295.14788]

We think about

- the nature and circumstances of the matter; and

For example, we may modify our review report instead of resigning when a material misstatement results from differences in professional judgment, such as, measurement of an estimate rather than a more factual misstatement.

- the entity's rationale for not addressing the matter.

For example, we may make a different determination when the entity has not addressed the matter because the scope limitation is beyond their control (e.g. natural disaster destroys documentation) than when the scope limitation is within the entity's control (e.g. refusal to provide certain written representations).

When and how do we modify a review report? [ISA | 4295.1500]

Refer to ISRM paragraphs [9.145 - 9.175](#) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_145](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_145) and [9.255 - 9.265](#) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_250](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_250).

## Reporting the Nature, Extent and Results of the Review

### International Standards on Review Engagements: ISRE 2410.43-63

#### Reporting the Nature, Extent and Results of the Review of Interim Financial Information

43. The auditor should issue a written report that contains the following:

- (a) An appropriate title.**
- (b) An addressee, as required by the circumstances of the engagement.**
- (c) Identification of the interim financial information reviewed, including identification of the title of each of the statements contained in the complete or condensed set of financial statements and the date and period covered by the interim financial information.**
- (d) If the interim financial information comprises a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a statement that management is responsible for the preparation and fair presentation of the interim financial information in accordance with the applicable financial reporting framework.**



- (e) **In other circumstances, a statement that management is responsible for the preparation and presentation of the interim financial information in accordance with the applicable financial reporting framework.**
- (f) **A statement that the auditor is responsible for expressing a conclusion on the interim financial information based on the review.**
- (g) **A statement that the review of the interim financial information was conducted in accordance with International Standard on Review Engagements (ISRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, and a statement that that such a review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.**
- (h) **A statement that a review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable the auditor to obtain assurance that the auditor would become aware of all significant matters that might be identified in an audit and that accordingly no audit opinion is expressed.**
- (i) **If the interim financial information comprises a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information does not give a true and fair view, or does not present fairly, in all material respects, in accordance with the applicable financial reporting framework (including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards).**
- (j) **In other circumstances, a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework (including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards).**
- (k) **The date of the report.**
- (l) **The location in the country or jurisdiction where the auditor practices.**
- (m) **The auditor's signature.**

Illustrative review reports are set out in Appendix 4 to this ISRE.

44. In some jurisdictions, law or regulation governing the review of interim financial information may prescribe wording for the auditor's conclusion that is different from the wording described in paragraph 43(i) or (j). Although the auditor may be obliged to use the prescribed wording, the auditor's responsibilities as described in this ISRE for coming to the conclusion remain the same.

## Departure from the Applicable Financial Reporting Framework

**45. The auditor should express a qualified or adverse conclusion when a matter has come to the auditor's attention that causes the auditor to believe that a material adjustment should be made to the interim financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.**

46. If matters have come to the auditor's attention that cause the auditor to believe that the interim financial information is or may be materially affected by a departure from the applicable financial reporting framework, and management does not correct the interim financial information, the auditor modifies the review report. The modification describes the nature of the departure and, if practicable, states the effects on the interim financial information. If the information that the auditor believes is necessary for adequate disclosure is not included in the interim financial information, the auditor modifies the review report and, if practicable, includes the necessary information in the review report. The modification to the review report is ordinarily accomplished by adding an explanatory paragraph to the review report, and qualifying the conclusion. Illustrative review reports with a qualified conclusion are set out in Appendix 5 to this ISRE.

47. When the effect of the departure is so material and pervasive to the interim financial information that the auditor concludes a qualified conclusion is not adequate to disclose the misleading or incomplete nature of the interim financial information, the auditor expresses an adverse conclusion. Illustrative review reports with an adverse conclusion are set out in Appendix 7 to this ISRE.

## Limitation on Scope

48. A limitation on scope ordinarily prevents the auditor from completing the review.

**49. When the auditor is unable to complete the review, the auditor should communicate, in writing, to the appropriate level of management and to those charged with governance the reason why the review cannot be completed, and consider whether it is appropriate to issue a report.**

## Limitation on Scope Imposed by Management

50. The auditor does not accept an engagement to review the interim financial information if the auditor's preliminary knowledge of the engagement circumstances indicates that the auditor would be unable to complete the review because there will be a limitation on the scope of the auditor's review imposed by management of the entity.

51. If, after accepting the engagement, management imposes a limitation on the scope of the review, the auditor requests the removal of that limitation. If management refuses to do so, the auditor is unable to complete the review and express a conclusion. In such cases, the auditor communicates, in writing, to the appropriate level of management and those charged with governance the reason why the review cannot be completed. Nevertheless, if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment to the interim financial information is necessary for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor communicates such matters in accordance with the guidance in paragraphs 38-40.

52. The auditor also considers the legal and regulatory responsibilities, including whether there is a requirement for the auditor to issue a report. If there is such a requirement, the auditor disclaims a conclusion, and provides in the review report the reason why the review cannot be completed. However,

if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment to the interim financial information is necessary for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor also communicates such a matter in the report.

## Other Limitations on Scope

53. A limitation on scope may occur due to circumstances other than a limitation on scope imposed by management. In such circumstances, the auditor is ordinarily unable to complete the review and express a conclusion and is guided by paragraphs 51-52. There may be, however, some rare circumstances where the limitation on the scope of the auditor's work is clearly confined to one or more specific matters that, while material, are not in the auditor's judgment pervasive to the interim financial information. In such circumstances, the auditor modifies the review report by indicating that, except for the matter which is described in an explanatory paragraph to the review report, the review was conducted in accordance with this ISRE, and by qualifying the conclusion. Illustrative review reports with a qualified conclusion are set out in Appendix 6 to this ISRE.

54. The auditor may have expressed a qualified opinion on the audit of the latest annual financial statements because of a limitation on the scope of that audit. The auditor considers whether that limitation on scope still exists and, if so, the implications for the review report.

## Going Concern and Significant Uncertainties

55. In certain circumstances, an emphasis of matter paragraph may be added to a review report, without affecting the auditor's conclusion, to highlight a matter that is included in a note to the interim financial information that more extensively discusses the matter. The paragraph would preferably be included after the conclusion paragraph and ordinarily refers to the fact that the conclusion is not qualified in this respect.

**56. If adequate disclosure is made in the interim financial information, the auditor should add an emphasis of matter paragraph to the review report to highlight a material uncertainty relating to an event or condition that may cast significant doubt on the entity's ability to continue as a going concern.**

57. The auditor may have modified a prior audit or review report by adding an emphasis of matter paragraph to highlight a material uncertainty relating to an event or condition that may cast significant doubt on the entity's ability to continue as a going concern. If the material uncertainty still exists and adequate disclosure is made in the interim financial information, the auditor modifies the review report on the current interim financial information by adding a paragraph to highlight the continued material uncertainty.

58. If, as a result of inquiries or other review procedures, a material uncertainty relating to an event or condition comes to the auditor's attention that may cast significant doubt on the entity's ability to continue as a going concern, and adequate disclosure is made in the interim financial information the auditor modifies the review report by adding an emphasis of matter paragraph.

**59. If a material uncertainty that casts significant doubt about the entity's ability to continue as a going concern is not adequately disclosed in the interim financial information, the auditor should express a qualified or adverse conclusion, as appropriate. The report should include specific reference to the fact that there is such a material uncertainty.**

**60. The auditor should consider modifying the review report by adding a paragraph to highlight a significant uncertainty (other than a going concern problem) that came to the auditor's attention, the resolution of which is dependent upon future events and which may affect the interim financial information.**

## Other Considerations

61. The terms of the engagement include management's agreement that where any document containing interim financial information indicates that such information has been reviewed by the entity's auditor, the review report will also be included in the document. If management has not included the review report in the document, the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances.

62. If the auditor has issued a modified review report and management issues the interim financial information without including the modified review report in the document containing the interim financial information, the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances, and the possibility of resigning from the appointment to audit the annual financial statements.

63. Interim financial information consisting of a condensed set of financial statements does not necessarily include all the information that would be included in a complete set of financial statements, but may rather present an explanation of the events and changes that are significant to an understanding of the changes in the financial position and performance of the entity since the annual reporting date. This is because it is presumed that the users of the interim financial information will have access to the latest audited financial statements, such as is the case with listed entities. In other circumstances, the auditor discusses with management the need for such interim financial information to include a statement that it is to be read in conjunction with the latest audited financial statements. In the absence of such a statement, the auditor considers whether, without a reference to the latest audited financial statements, the interim financial information is misleading in the circumstances, and the implications for the review report.

## How do we comply with the Standards? [ISA | KAEGHDWC]

### 1 Interim Review | Issue an interim review report and respond to subsequent matters [ISA | 4296]

#### What do we do?

Issue an interim review report and respond to subsequent matters regarding the report.

#### Why do we do this?

The results of our interim review procedures culminate to reaching a conclusion on the interim financial information. We conclude whether, as a result of the interim review procedures that we have performed, we are aware of any matters that may indicate that the interim financial information is materially misstated.

## Execute the Audit

## How do we prepare and issue an interim review report? [ISA | 4296.5915]

We [prepare and issue a written interim review report](#) in accordance with the [International Standards Reports Manual](#) <https://alex.kpmg.com/AROWeb/bridge/6209/17966?d=US,INTL,AU> (ISRM) and, if relevant, national reporting policies, procedures and guidance.

In addition to the applicable reports manual, [ISRM example reports](#) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_AppxB](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_AppxB) are available to facilitate compliance with the reports manuals.

## What do we do if matters arise subsequent to issuing our report? [ISA | 4296.6578]

We may become aware of matters subsequent to issuing our report. We:

- [Perform relevant procedures regarding subsequently discovered facts](#) (i.e. facts that existed at the completion of the review that might have affected our conclusion);
- [Respond if our interim review is referenced in a document but our report is not included](#);
- [Consult when modified report is not included with interim information](#); or
- [Consult when interim financial information is altered or our review report is used inappropriately on a website](#).

# 1.1 Interim Review | Prepare and issue a written interim review report [ISA | 4298]

## What do we do?

Prepare and issue a written interim review report

## Why do we do this?

Our written review report is our ultimate deliverable that users of the interim financial information receive. It communicates the results of our interim review procedures and whether we became aware of any matters that may indicate that the interim financial information is materially misstated.

## Execute the Audit

### When do we issue a written report? [ISA | 4298.1300]

We issue a report no earlier than when:

- we have completed our interim review procedures and formed a conclusion on the interim financial information; and
- those with recognized authority have asserted that they have taken responsibility for the prepared interim financial information.

### How do we prepare and issue an interim review report? [ISA | 4298.1400]

We prepare and issue a written interim review report in accordance with the [International Standards Reporting Manual](#) [https://alex.kpmg.com/AROWeb/document/lfc/UN\\_IISRM\\_ISRM2018\\_1/toc/UN\\_IISRM\\_ISRM2018\\_1?tocref=UN\\_IISRM\\_ISRM2018\\_1](https://alex.kpmg.com/AROWeb/document/lfc/UN_IISRM_ISRM2018_1/toc/UN_IISRM_ISRM2018_1?tocref=UN_IISRM_ISRM2018_1) (ISRM) and, if relevant, national reporting policies, procedures and guidance as appropriate.

In addition to the applicable reports manual, [ISRM example reports](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_AppxB) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_AppxB](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_AppxB) are available to facilitate compliance with the reports manuals.

### What are the elements of the review report?

See ISRM [paragraphs 9.13 - 9.105](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_13) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_13](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_13).

### When and how do we modify a review report?

See ISRM [paragraphs 9.145 - 9.175](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_140) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_140](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_140) and [9.255 - 9.265](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_255) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_255](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_255).

### How do going concern matters effect a review report?

See ISRM [paragraphs 9.280 - 9.305](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_280) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_280](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_280).

### What do we consider when interim financial information consists of a condensed set of financial statements?

See ISRM [paragraphs 9.365 - 9.380](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_365) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_365](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_365).

## Examples

Where can we find example interim review reports? [ISA | 4298.1500]

### Where can we find unmodified example reports?

See ISRM [paragraphs 9.110 - 9.130](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_110) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_110](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_110).

### Where can we find modified example reports?

See ISRM [paragraphs 9.180 - 9.190](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_180) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_180](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_180).

## 1.2 Interim Review | Perform relevant procedures regarding subsequently discovered facts [ISA | 4300]

### What do we do?

IF, subsequent to the date of the auditor's review report, we become aware of facts that existed at the date of the review report that might have affected our conclusion, THEN perform relevant procedures.

### Why do we do this?

The subsequent discovery of facts may reveal a potential material misstatement that was not identified by the entity or our review, which could mean that the issued interim financial information contains a material misstatement and our associated review conclusion may not be appropriate.

## Execute the Audit

What are 'subsequently discovered facts'? [ISA | 4300.5919]

Subsequently discovered facts means new information related to the interim financial information that we become aware of after the date of the review report. The source of the subsequent discovery of facts can be wide-ranging, including external sources (e.g. news media, industry development)

or internal sources (e.g. a conversation with management, subsequent year's audit planning and/or execution, an inspection).

The new information provides additional information about conditions that may have existed at the time of the interim review.

**Are we responsible for looking for facts that existed at the review report date that may have affected our conclusion?** [ISA | 4300.5920]

No. After the date of the review report, we have no responsibility to perform procedures to detect facts that may have affected our previously expressed review conclusion had we then been aware of those matters. We may, however, become aware of these facts - for example, by performing procedures in a subsequent period.

**What do we do if we become aware of subsequently discovered facts that might have affected the review conclusion?** [ISA | 4300.5921]

If, subsequent to the date of the auditor's review report, we become aware of facts that might have affected the review report had we then been aware of those matters, we consult with the risk management partner to determine the appropriate course of action.

## 1.3 Interim Review | Respond if our interim review is referenced in a document but our report is not included

[ISA | 4302]

### What do we do?

IF an entity represents in a document including interim financial information that we have reviewed the information and does not also include the review report in the document, THEN perform specific procedures.

### Why do we do this?

Our review report informs the users of the interim financial information of important matters, including the limitations of a review, the results of our review, and any additional information we wish to draw to their attention, such as a departure from generally accepted accounting principles. When an entity represents that we have completed an interim review, our written review report accompanies the interim financial information so that the user is made aware of such matters.

## Execute the Audit

**What do we do if the entity represents that we have reviewed the interim financial information included in a document but does not include the review report?** [ISA | 4302.1600]

We consult with the risk management partner to assist in determining the appropriate course of action when we become aware that a document containing interim financial information indicates that such interim financial information has been reviewed by us and management has not included the review report in the document.



## 1.4 Interim Review | Consult when modified report is not included with interim information [ISA | 7899]

### What do we do?

IF we have issued a modified review report due to a departure from the applicable financial reporting framework, and management issues the interim financial information without including the review report in the document, THEN consult appropriately.

### Why do we do this?

If we have issued a modified review report due to a departure from the applicable financial reporting framework, and management issues the interim financial information without including the review report in the document containing the interim financial information, we consult to determine an appropriate course of action in the circumstances, including whether to withdraw from the engagement to audit the annual financial statements.

### Execute the Audit

[With whom do we consult if we have issued a modified review report and the entity issues the interim financial information without including the review report in the document?](#) [ISA | 7899.9181]

If we have issued a modified review report and the entity issues the interim financial information without including the review report in the document containing the interim financial information, we consult with the risk management partner to determine an appropriate response.

## 1.5 Interim Review | Consult when interim financial information is altered or the review report is used inappropriately on a website [ISA | 4303]

### What do we do?

**IF** we become aware that the reviewed interim financial information has been altered or the review report is used inappropriately on the entity's website, **THEN** request management to correct the situation. **IF** management does not correct, **THEN** consult with the appropriate parties AND consider whether to resign.

### Why do we do this?

The entity may incorporate the interim financial information and the review report on the entity's website. If we become aware that the financial information on the website has been altered or the review report is being used inappropriately, this is a serious concern. Even if we have not issued a review report - in the case of a PCAOB engagement -, our review might still be affected. This concern could escalate to the point that we resign from the engagement.



## Execute the Audit

Do we reconcile the information on the website with the information we reviewed? [ISA | 4303.1300]

No. We do not reconcile the information on the website with the information we reviewed.  
Nonetheless, we may become aware that the reviewed financial information has been altered on the entity's website.

What do we do if we become aware that the reviewed interim financial information has been altered or the review report is otherwise used inappropriately on the entity's website? [ISA | 4303.5943]

If we become aware that the interim financial information has been altered or the review report is otherwise used inappropriately on the entity's website, we request management to correct the information on the website.

If management does not correct the inappropriate use of the review report on the website, including alteration of reviewed interim financial information, we:

- consult with the risk management partner,
- consider seeking legal advice, and
- consider whether to resign as the entity's auditors.

## 2 Interim Review | Communicate if we are unable to complete the interim review [ISA | 4282]

### What do we do?

Communicate to management and those charged with governance in writing if we are unable to complete the interim review

### Why do we do this?

When circumstances prevent us from completing our interim review, we provide the reason to management and those charged with governance. In addition to being a part of the auditing standards, it also promotes a positive client service experience. When the limitation on our interim review is management imposed, we also consult with others to help manage risk to the firm and determine whether it is appropriate to issue a report.

## Execute the Audit

What might prevent us from completing our interim review? [ISA | 4282.1300]

We may be prevented from completing an interim review when:

- there is a scope limitation, whether imposed by management or not, that prevents us from performing certain procedures, including obtaining representations from management;
- management issues the interim financial information before our interim review is complete; or
- circumstances occur where we withdraw from the engagement or client.

What do we do if the scope limitation is management imposed? [ISA | 4282.1400]

First, we ask management to remove the scope limitation. If the limitation is not removed, we consult the risk management partner to determine whether it is appropriate to issue a report, considering legal and regulations.

If after consulting, we determine that we cannot complete the interim review, we communicate, in writing, to the appropriate level of management and those charged with governance the reason why the interim review cannot be completed.

**What other resources are available?** [ISA | 4282.1500]

Refer to [ISRM paragraphs 9.215 - 9.245](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_215/toc) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_215/toc](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_215/toc).

**If we cannot complete the interim review, do we still communicate material adjustments that we become aware of?** [ISA | 4282.1600]

Yes, we inform management of any material adjustments (material misstatements) that we become aware of regardless of whether we are able to complete the interim review or whether management issues the interim financial information before our interim review is complete.

Also, if management does not respond appropriately to our communication of material adjustments, we also communicate it those charged with governance.

## Documentation

### International Standards on Review Engagements: ISRE 2410.64

#### Documentation

**64. The auditor should prepare review documentation that is sufficient and appropriate to provide a basis for the auditor's conclusion and to provide evidence that the review was performed in accordance with this ISRE and applicable legal and regulatory requirements.** The documentation enables an experienced auditor having no previous connection with the engagement to understand the nature, timing and extent of the inquiries made, and analytical and other review procedures applied, information obtained, and any significant matters considered during the performance of the review, including the disposition of such matters.

### How do we comply with the Standards? [ISA | KAEGHDWC]

#### 1 Prepare, assemble and retain appropriate review documentation [ISA | 4305]

##### What do we do?

Prepare, assemble and retain appropriate review documentation

## Why do we do this?

We prepare, assemble and retain interim review documentation in sufficient detail in order to support the work performed and enable an experienced auditor, having no previous connection with the interim review, to understand:

- the nature, timing and extent of the interim review procedures performed to comply with relevant review standards and applicable laws and regulations and firm policies;
- the results of interim review procedures performed and the evidence obtained and conclusions reached; and
- significant findings or issues arising during the review, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

## Execute the Audit

How do we prepare, assemble and retain interim review documentation appropriately? [ISA | 4305.1300]

We prepare, assemble and retain interim review documentation in the same manner as an audit, adapted as necessary for an interim review. A summary of the main activities in the chapter on audit documentation ([AS 1215](#), [ISA 230](#), [AU-C 230](#)) that are relevant to interim reviews is as follows:

- [prepare audit documentation in compliance with auditing standards, legal and regulatory requirements and firm policy](#), which includes, among others:
  - [documenting planning, performance of procedures, and conclusions reached](#), including evidence of when and by whom the work was performed and reviewed;
  - [documenting significant findings and issues, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions](#); and
  - [complete all necessary procedures prior to the date of the auditor's report](#), which includes addressing and clearing all review notes;
- assemble the final audit file; and
- [retain audit documentation for the member firm's specified retention period](#).

How do we undertake appropriate consultations and document these appropriately? [ISA | 4305.8929]

In an interim review, we undertake appropriate consultations and document the details of the consultations and the conclusions reached in the same manner as in an audit, adapted as necessary for an interim review.

For further guidance, refer to the audit activities '[Undertake appropriate consultations](#)' and '[Document consultations](#)'.

How does our documentation of significant findings or issues differ in a review from an audit? [ISA | 4305.1400]

In an interim review, we do not document significant risks and significant changes in our risk assessment since we do not design and perform specific procedures to gather evidence to reduce the risks of material misstatement (RMMs), including significant risks.

Our knowledge of RMMs, including significant risks, from our previous audit engagement may influence our planned interim review procedures. If in performing those planned procedures, we become aware of a matter that may materially misstate the interim financial information, we perform

additional interim review procedures (modify our planned procedures) to resolve whether the matter results in a material misstatement of the interim financial information. This can lead to other significant findings or issues that are captured in our review documentation in the completion screens within the KPMG Clara workflow.

[Are there interactions between the audit procedures and the interim review procedures?](#) [ISA | 4305.14621]

It depends. Similar to interim analytical procedures being repurposed as risk assessment procedures for purposes of the audit, certain auditing procedures may be performed concurrently with the review of interim financial information and repurposed as interim review procedures.

For example, there may be significant or unusual transactions, such as business combinations, restructurings, or significant revenue transactions, occurring during the interim period under review for which the auditing procedures are performed at the time of the interim review. We may repurpose the audit procedures and related documentation for our interim review and also include the relevant findings into the review documentation.

[How do we document audit procedures repurposed as interim review procedures?](#) [ISA | 4305.14622]

We include the relevant audit documentation in both the review documentation and the audit documentation in order to maintain separate sets of documentation for each engagement (e.g. each interim review, including a fourth quarter review, is maintained separate from the audit documentation). We may not include an identical set of documentation as the level of the evidence obtained for an interim review is not as extensive.

[Do we include a copy of our report in the review documentation?](#) [ISA | 4305.6059]

Yes. A copy of our final review report is included in the review documentation.

## Effective Date

### International Standards on Review Engagements: ISRE 2410.65

#### Effective Date

65. This ISRE is effective for reviews of interim financial information for periods beginning on or after December 15, 2006. Earlier adoption of the ISRE is permissible.

## Public Sector Perspective

### International Standards on Review Engagements: ISRE 2410.Public Sector Perspective

#### Public Sector Perspective

1. Paragraph 10 requires that the auditor and the client agree on the terms of engagement. Paragraph 11 explains that an engagement letter helps to avoid misunderstandings regarding the nature of the engagement and, in particular, the objective and scope of the review, management's responsibilities, the extent of the auditor's responsibilities, the assurance obtained, and the nature and form of the report. Law or regulation governing review engagements in the public sector ordinarily mandates the appointment of the auditor. Consequently, engagement letters may not be a widespread practice in the public sector. Nevertheless, an engagement letter setting out the matters referred to in paragraph 11 may be useful to both the public sector auditor and the client. Public sector auditors, therefore, consider agreeing with the client the terms of a review engagement by way of an engagement letter.

2. In the public sector, the auditor's statutory audit obligation may extend to other work, such as a review of interim financial information. Where this is the case, the public sector auditor cannot avoid such an obligation and, consequently, may not be in a position not to accept (see paragraph 50) or to withdraw from a review engagement (see paragraphs 36 and 40(b)). The public sector auditor also may not be in the position to resign from the appointment to audit the annual financial statements (see paragraphs 40(c) and 62).

3. Paragraph 41 discusses the auditor's responsibility when a matter comes to the auditor's attention that causes the auditor to believe in the existence of fraud or noncompliance by the entity with laws and regulations. In the public sector, the auditor may be subject to statutory or other regulatory requirements to report such a matter to regulatory or other public authorities.

## Example of an Engagement Letter for a Review

### International Standards on Review Engagements: ISRE 2410. Appendix 1

#### Appendix 1 Example of an Engagement Letter for a Review of Interim Financial Information

The following letter is to be used as a guide in conjunction with the consideration outlined in paragraph 10 of this ISRE and will need to be adapted according to individual requirements and circumstances.

To the Board of Directors (or the appropriate representative of senior management)

We are providing this letter to confirm our understanding of the terms and objectives of our engagement to review the entity's interim balance sheet as at June 30, 20X1 and the related statements of income, changes in equity and cash flows for the six-month period then ended.

Our review will be conducted in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the International Auditing and Assurance Standards Board with the objective of providing us with a basis for reporting whether anything has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with the [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting when the financial reporting framework used is not International Financial Reporting Standards]. Such a review consists of making inquiries, primarily of persons responsible for financial

and accounting matters, and applying analytical and other review procedures and does not, ordinarily, require corroboration of the information obtained. The scope of a review of interim financial information is substantially less than the scope of an audit conducted in accordance with International Standards on Auditing whose objective is the expression of an opinion regarding the financial statements and, accordingly, we shall express no such opinion.

We expect to report on the interim financial information as follows:

[Include text of sample report.]

Responsibility for the interim financial information, including adequate disclosure, is that of management of the entity. This includes designing, implementing and maintaining internal control relevant to the preparation and presentation of interim financial information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. As part of our review, we will request written representations from management concerning assertions made in connection with the review. We will also request that where any document containing interim financial information indicates that the interim financial information has been reviewed, our report will also be included in the document.

A review of interim financial information does not provide assurance that we will become aware of all significant matters that might be identified in an audit. Further, our engagement cannot be relied upon to disclose whether fraud or errors, or illegal acts exist. However, we will inform you of any material matters that come to our attention.

We look forward to full cooperation with your staff and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our review.

[Insert additional information here regarding fee arrangements and billings, as appropriate.]

This letter will be effective for future years unless it is terminated, amended or superseded (if applicable).

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our review of the financial statements.

Acknowledged on behalf of ABC Entity by

(signed)

Name and Title

Date

## How do we comply with the Standards? [ISA | KAEGHDWC]

### 1 Interim Review | Agree terms of the interim review in an engagement letter [ISA | 4213]

#### What do we do?

Agree the terms of the interim review in an engagement letter.

#### Why do we do this?

Agreeing to the terms of the interim review engagement and recording these terms in an engagement letter helps to avoid misunderstandings regarding the nature of the engagement and, in particular, the objective and scope of the review, management's responsibilities, the extent of our responsibilities, the assurance obtained and the nature and form of any reports.

## Execute the Audit

### What additional procedures do we perform for multi-firm engagements? [ISA | 4213.8935]

Certain technologies are hosted in third-party cloud environments, such as the KPMG Clara workflow. In addition, engagement teams may use third-party service providers within and outside of their home country (e.g. offshore IT support).

If multi-firm engagements intend to host and use client data in the cloud and to permit access by third party service providers to such data, originating engagements team and participating engagement teams determine if the engagement terms allow them to do so.

Refer to the audit activity '[Establish an understanding of the terms of the audit](#)' for further information regarding additional procedures for originating engagement teams and participating engagement teams in a multi-firm engagement, adapted as necessary for an interim review.

### How do we agree and record the terms of the interim review? [ISA | 4213.1300]

We agree and record the terms of the interim review in an engagement letter. See [Chapter 9 of the Global Quality and Risk Management Manual](#) <https://www.gqrm-prod.kworld.kpmg.com/G/0/Content/81> (GQ&RMM) for additional considerations to be applied together with any local policies, procedures and guidance. Refer to your local member firm engagement letter templates.

In the absence of a local country engagement letter template, we may refer to [Appendix 1 of ISRE 2410](#) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_XLNUK\\_IFAC18\\_ISRE\\_2410\\_APPX1](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_XLNUK_IFAC18_ISRE_2410_APPX1) for an example of an interim review engagement letter.

### Can the terms of the interim review be included in the audit engagement letter? [ISA | 4213.1400]

Yes, the terms of the interim review can may be included in the audit engagement letter. The terms of the interim review are usually established in conjunction with the establishment of the terms of the annual audit and included in a combined engagement letter.

### What terms of the interim review do we include in the engagement letter? [ISA | 4213.1500]

We ordinarily include the following terms of an interim review in the engagement letter:

- the objective of a review
- the scope of the review
- management's responsibility for the interim financial information
- management's responsibility for establishing and maintaining effective internal control relevant to the preparation of interim financial information
- management's responsibility for making all financial records and related information available to us
- management's agreement to provide written representations to us to confirm representations made orally during the review, as well as representations that are implicit in the entity's records



- the anticipated form and content of the report to be issued, including the identity of the addressee of the report
- management's agreement that where any document containing interim financial information indicates that the interim financial information has been reviewed by us, the review report will also be included in the document.

[Where do we file the engagement letter?](#) [ISA | 4213.158372]

We include the signed engagement letter and any other documents relevant to understanding the terms of the interim review to the interim review file and/or to the current year audit file. If the engagement letter relevant to the interim review is included in the current year audit file, we include a reference in the interim review file to the relevant documents in the audit file.

## Analytical Procedures the Auditor May Consider

### International Standards on Review Engagements: ISRE 2410.Appendix 2

### Appendix 2 Analytical Procedures the Auditor May Consider When Performing a Review of Interim Financial Information

Examples of analytical procedures the auditor may consider when performing a review of interim financial information include the following:

- Comparing the interim financial information with the interim financial information of the immediately preceding interim period, with the interim financial information of the corresponding interim period of the preceding financial year, with the interim financial information that was expected by management for the current period, and with the most recent audited annual financial statements.
- Comparing current interim financial information with anticipated results, such as budgets or forecasts (for example, comparing tax balances and the relationship between the provision for income taxes to pretax income in the current interim financial information with corresponding information in (a) budgets, using expected rates, and (b) financial information for prior periods).
- Comparing current interim financial information with relevant non-financial information.
- Comparing the recorded amounts, or ratios developed from recorded amounts, to expectations developed by the auditor. The auditor develops such expectations by identifying and applying relationships that are reasonably expected to exist based on the auditor's understanding of the entity and of the industry in which the entity operates.
- Comparing ratios and indicators for the current interim period with those of entities in the same industry.
- Comparing relationships among elements in the current interim financial information with corresponding relationships in the interim financial information of prior periods, for example, expense by type as a percentage of sales, assets by type as a percentage of total assets, and percentage of change in sales to percentage of change in receivables.



- Comparing disaggregated data. The following are examples of how data may be disaggregated:
  - By period, for example, revenue or expense items disaggregated into quarterly, monthly, or weekly amounts.
  - By product line or source of revenue.
  - By location, for example, by component.
  - By attributes of the transaction, for example, revenue generated by designers, architects, or craftsmen.
  - By several attributes of the transaction, for example, sales by product and month.

## How do we comply with the Standards? [ISA | KAEGHDWC]

### 1 Interim Review | Compare recorded amounts or ratios to our expectation [ISA | 4231]

#### What do we do?

Compare recorded amounts or ratios to our expectation, which is developed by using plausible relationships that are expected to exist based on our understanding of the entity

#### Why do we do this?

We 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.

### Execute the Audit

[How do we compare the recorded amount or ratios to our expectations?](#) [ISA | 4231.1300]

We compare the recorded amount or ratios to our expectations through the following steps:

- (1) We develop expectations about the recorded amounts or ratios developed from recorded amounts in the interim financial information by considering plausible relationships among both financial and nonfinancial information and leveraging our understanding of the entity, industry and other information. See activity '[Update or obtain an understanding of the entity](#)'.
- (2) We then perform a comparison of the interim financial information with the comparable information. During this step we continue to develop expectations on certain interim financial information based on our understanding of plausible relationships expected in the entity's interim financial information.
- (3) We determine whether our developed expectations are consistent with the recorded amounts or ratios developed from recorded amounts. When they are not consistent or we identify unusual relationships or items, we inquire further of management. See activity '[Perform related inquiries and consider management's responses](#)'.

[How do we develop an expectation for the interim financial information?](#) [ISA | 4231.1500]

In many cases, our starting point for developing an expectation is the comparable information in the preceding interim period(s) and corresponding period(s) in the previous year. We assess whether the comparable information is an appropriate expectation for the current interim period or adjust it based on our knowledge about changes in the entity's business, industry and specific transactions.

We also consider plausible relationships among other financial and nonfinancial information, where relevant. Other financial information may include budgets/ forecasted information, other entities in the same industry sector or certain ratios that are derived from the interim financial information.

For example, there may be a relationship between headcount and payroll expense, so if we learn that the workforce decreased, we may expect payroll expense to decrease.

#### How does developing expectations for an analytical procedure for an interim review differ from that in a substantive analytical procedure? [ISA | 4231.1600]

We typically do not develop expectations in the same way that we do for a SAP. Analytical procedures for interim reviews are not designed with the objective of providing substantive audit evidence. The differences in how we develop expectations for an analytical procedure for interim reviews compared to a SAP include:

- Our developed expectations are typically not as precise as those developed for SAPs;
- Our developed expectations are not necessarily documented upfront, but rather these are implicit in our evaluation of the actual amounts; and
- Inquiry alone may be sufficient to evaluate the reliability of the data from which our expectation is developed.

#### What is a 'plausible relationship'? [ISA | 4231.1700]

A plausible relationship is an expected relationship between financial information and other financial information, or financial information and non-financial information.

We may base an expected relationship on our understanding of the entity, the industry or past experience. These relationships can be expressed in various ways, including:

- simple comparisons of recorded amounts; or
- financial ratios that we can compare.

For example, we normally expect a relationship between sales and accounts receivable, whereby accounts receivable increase as sales increase. And in a 'brick and mortar' retail environment, we expect a relationship between sales and retail square feet.

Where plausible relationships exist, we expect them to continue to exist, unless something happens to affect the relationship.

For example, if the types of sales-generating activities remain the same, we expect accounts receivable to increase as sales increase.

#### How do we develop our expectations of plausible relationships? [ISA | 4231.1800]

We develop our expectations of plausible relationships by using our understanding of the entity, including any information we may have learned from our other interim review procedures — e.g. changes to the business.

For example, we may compare sales from the current and prior periods, and develop a general expectation for the accounts receivable balance.

If, however, our planning procedures reveal that the entity is making significantly more cash sales than in the past, we adjust our expectation of the relationship between sales and accounts receivable accordingly.

#### [What do we do with our expectations of plausible relationships? \[ISA | 4231.1900\]](#)

We compare our expectations of plausible relationships with the entity's recorded amounts and consider the results. When a relationship based on recorded amounts does not align with our expectation, we perform follow-up procedures.

For example, an entity has historically generated most of its sales through wholesale distribution channels. If that entity begins to sell its products through retail stores, it may generate significantly more cash sales than in the past.

This change may affect the relationship between sales and accounts receivable, because the entity will now have more sales without corresponding accounts receivables (since the sale was made for cash). When we compare this expectation to the entity's recorded amounts and our adjusted expectation does not align, we perform other procedures.

#### [Do we consider plausible relationships in all interim reviews? \[ISA | 4231.14652\]](#)

Yes. We consider plausible relationships as part of an interim review, but not in the same manner as in a SAP. In a SAP, plausible relationships are sufficiently predictable to obtain the desired level of persuasive audit evidence. For an analytical procedure in an interim review, our consideration of plausible relationships may be nothing more than a comparison to the prior period.

#### [What level of evidence is necessary over the relevance and reliability of information we use in performing an analytical procedure? \[ISA | 4231.14654\]](#)

The evidence we obtain to determine the relevance and reliability of the information in an interim review procedure may be less than what we use when testing a control or performing a substantive procedure (including a substantive analytical procedure).

#### [How do we determine relevance? \[ISA | 4231.14655\]](#)

We determine the relevance of the information we use to develop plausible relationships based on our understanding of the entity and the financial statement information that is key to the entity's operations.

'Relevance' connects back to the nature of our analytical procedures, and whether the information helps us understand a plausible relationship that exists. We do not use information unless it is relevant to our procedure.

#### [How do we determine reliability? \[ISA | 4231.14656\]](#)

We determine the reliability of the information through inquiry with management, or through other procedures to consider the source of the information.

Inquiry of management may sometimes be sufficient - e.g. it may help us confirm that the information we are using came directly from the entity's general ledger system, which has general IT controls in place.

For other information, we may perform additional procedures to determine its source and establish its reliability before we use it, such as observing management generating the information.

#### What other factors do we think about in designing an analytical procedure? [ISA | 4231.14657]

Designing analytical procedures is based on our professional judgment, but we think about the following factors:

- *Quantitative and qualitative factors to perform follow-up inquiries:* In performing our analytical procedures, we may identify unusual items or differences between our developed expectation and the recorded amounts in the interim financial information. When determining the items we perform follow-up inquiries with management, we may keep in mind quantitative and qualitative factors as discussed in activity '[Perform related inquiries and consider management's responses](#)'.
- *Level of disaggregation:* The decision as to whether to disaggregate other financial captions is based on professional judgment.
- *Extent and availability of client-prepared financial and operating data:* Most entities, if not already performing interim analytical procedures on their interim financial information, develop a vast amount of information to help management analyze operations and make business decisions. Before spending the time to accumulate and analyze such information, we obtain any internally prepared management reports and analyses that serves the same purpose.
- *Historical errors or new processes:* We may perform a different type of analytical procedure because the comparative trend analysis may not identify historical errors or new processes.

## Examples

### Example of developing expectations and considering plausible relationships in performing an analytical procedure [ISA | 4231.2000]

Entity X is a public professional services company. In planning for our Q1 20X8 interim review, we have obtained the following understanding about the entity's activity for the interim period:

- Revenues have doubled compared to the corresponding period in the previous year from new customers obtained through an acquisition of a similar sized domestic competitor, Entity Y, which was completed in Q2 20X7.
- Entity Y was acquired for \$145 million in cash, of which \$100 million of the value was allocated to customer relationships (5 year estimated life) and the remaining to goodwill.
- Gross margins in Q1 20X8 continue to be consistent from the previous year at around 50%.
- Entity Y had sales of \$50 million in Q1 20X7 and gross margins of 50%.
- Headcount for professional service (PS) consultants has doubled to 2000 employees due to the acquisition of Entity Y in the previous year.

We have also determined the following expected plausible relationships from certain financial and non-financial information based on our historical understanding of the entity and its industry:

- Days sales outstanding (DSO): 30 days
- Average annual payroll for professional service (PS) consultants: \$100 million
- Gross profit margin: 50%

Based on our judgement, we have also determined that differences from expectation of \$2 million or greater is unusual and may indicate a material misstatement.

Note, the interim financial information below has been abbreviated for purposes of this example.

**Income Statement:**

(in \$ millions)	Q1 20X7 Actual	Q1 20X8 Actual	Variance	Follow-up inquiry?
Revenue:				
Entity X	50	60	+10	Yes - a
Entity Y	0	50	+50	No - b
Total revenue:	50	110	+60	*
Cost of sales (COS):				
Consultant payroll	25	50	+25	No - c
Gross margin (\$)	25	60	+35	*
Gross margin (%)	50%	55%	+5%	Yes - d

\* Note these are aggregate of multiple captions, as such the adjustments and any differences are an aggregate of the individual line items above

**Notes to the Income Statement:**

(a) The fluctuation is not consistent with our expectation.

We expected revenue for Entity X to be consistent with Q1 20x7.

The difference from the actual increase of \$10 million is above \$2 million; therefore, we perform further inquiry.

(b) The fluctuation is consistent with our expectation.

We expected revenues to double over Q1 20x7, increasing by \$50 million considering the entity's recent acquisition of Entity Y and Entity Y's historical results.

(c) The fluctuation is consistent with our expectation.

We expected an increase over Q1 20x7 considering the increase in PS headcount and the average payroll for PS consultant per quarter - calculated as follows:

Increase in PS Headcount = 2,000 PS consultants - 1,000 PS consultants = 1,000

Average payroll per PS consultant per quarter =

\$100 million ÷ 1,000 PS consultants ÷ 4 quarters = \$.025

Expected increase = 1,000 X \$.025 = \$25

(d) The fluctuation is not consistent with our expectation.

We expected the gross margin percentage to be consistent with Q1 20x7 considering that there had been no change in Entity X's business and that Entity Y had the same gross margin percentage as Entity X and that there had been no change in Entity Y's business.

The difference in the gross margin percentage of 5% or \$5 million is above \$2 million; therefore we perform further inquiry.

#### Balance Sheet:

(in \$ millions)	Q4 20X7 Actual	Q1 20X8 Actual	Variance	Follow-up Inquiry?
Cash	100	112	+12	No - e
A/R	20	36	+16	No - f
Intangible assets	85	80	-5	No - g
Goodwill	45	45	0	No - h

Notes to the Balance Sheet:

(e) The fluctuation is consistent with our expectation.

The expected balance is consistent with the cash flow statement.

(f) The fluctuation is consistent with our expectation.

We expected the A/R balance to increase based on the increase in revenue. The expected level of increase is also consistent with our calculation of the expected period-end balance based on the historical DSO - calculated as follows:

\$110 million (Q1 revenue) x 90 days (days in the interim period) ÷ 30 days (historical DSO) = \$37 million

The difference between our expectation and the actual is under \$2 million; therefore, we do not perform further inquiry.

(g) The fluctuation is consistent with our expectation.

We expected the intangible assets balance to decrease based on the amortization of the acquired customer relationships. No additions to the intangible assets were expected. The expected level of decrease is also consistent with our calculation of the expected period-end balance based on the following calculation:

\$100 million acquired customer relationship ÷ 60 month expected life x 3 months (months in the interim period).

(h) The fluctuation is consistent with our expectation.

There was no expectation of any goodwill being impaired.

**Statement of Cash Flows:**

(in \$ millions)	Q1 20X7 Actual	Q1 20X8 Actual	Variance	Follow-up inquiry?
Net income	10	25	+15	^
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization	0	7	+7	Yes - i
Changes in operating assets and liabilities				
A/R	0	-16	-16	**
Net cash provided / used by operating activities	10	14	+4	*

^ The Q1 20x8 Actual amount agrees directly with the amount recorded in the income statement. The fluctuation can be derived from the income statement analytical.

\* Note these are aggregate of multiple captions, as such the adjustments and any differences are an aggregate of the individual line items above

\*\* The Q1 20x8 Actual amounts agree directly with the change in the account explained in balance sheet analytical.

Notes to the Statement of Cash Flows:

(i) The fluctuation is not consistent with our expectation.

The amortization adjustment is expected to be consistent with the amortization amount for the intangible assets. The difference from the actual amortization is above \$2 million; therefore, we perform further inquiry.

#### Examples of analytical procedures that we may perform [ISA | 4231.2100]

We often perform analytical procedures that take on characteristics of the various types of analytical procedures (i.e., trend analysis, ratio analysis, and reasonableness tests).

For example, the results of computing the current ratio (ratio analysis) are compared to current ratios of previous years (trend analysis) and evaluated based on your understanding of current factors affecting the client's working capital accounts (test of reasonableness).

Examples of the various types of analytical procedures are as follows:

- *Trend analysis*: the comparison of a recorded amount to the prior-year balance or corresponding period(s). This is the most basic and common analytical procedure we perform for a review of interim financial information.
- *Ratio analysis*: the comparison of a ratio calculated for the current period to a related or similar ratio for a prior period or a corresponding period, an industry standard, or a budget.

Profitability ratios are particularly useful in identifying potential misstatements of net income/income statement accounts. The ratios might also lead to the detection of balance sheet misstatements.

For example, the understatement of expenses may indicate the overstatement of assets, or vice versa.

Ratio analysis is most appropriate when the relationship between accounts is fairly predictable and stable. Ratio analysis can be more effective than trend analysis because comparisons between balance-sheet accounts and income statement accounts can reveal unusual fluctuations that an analysis of only one account may not.

- Common types of ratio analyses include:

Types of ratio analyses	Ratios and calculation
Profitability ratios	<ul style="list-style-type: none"> <li>• Return on sales = Net income ÷ Net sales</li> <li>• Return on total assets = Net income ÷ Total assets</li> <li>• Return on equity = Net income available to common stockholders ÷ Average common stockholders' equity</li> <li>• Gross profit percentage = Gross profit ÷ Net sales</li> <li>• Percentage change in sales = (Current year's net sales - Last year's net sales) ÷ Last year's net sales</li> </ul>
Leverage ratios	<ul style="list-style-type: none"> <li>• Debt to assets = Total debt ÷ Total assets</li> <li>• Debt to equity = Total debt ÷ Total equity</li> </ul>



	<ul style="list-style-type: none"> <li>• Coverage ratio = <math>(\text{Net income} + \text{Interest expense}) \div \text{Interest expense}</math></li> <li>• Cash flow to total debt = <math>\text{Net cash flow} \div \text{Total debt}</math></li> </ul>
Liquidity ratios	<ul style="list-style-type: none"> <li>• Current ratio = <math>\text{Current assets} \div \text{Current liabilities}</math></li> <li>• Acid test ratio (or quick ratio) = <math>\text{Quick assets} \div \text{Current liabilities}</math></li> <li>• Working capital turnover = <math>\text{Net sales} \div \text{Average working capital}</math></li> </ul>

- *Model based procedures (reasonableness tests)*: the procedure where we use client operating data and the relevant external data (industry information and general economic information) to develop an expectation for the recorded amount. These procedures typically use operating and external data in addition to financial data to perform the reasonableness tests.

For example, the number of employees can be used to determine average wages or vacation pay per employee.

#### Examples of plausible relationships that exist between information [ISA | 4231.14658]

The table below sets out examples of plausible relationships that may be relevant to our analytical procedures.

Example of plausible relationship	Type of relationship
<p>Sales and accounts receivable:</p> <ul style="list-style-type: none"> <li>• as sales increase, we expect accounts receivable to increase</li> <li>• as sales decrease, we expect accounts receivable to decrease</li> </ul>	General relationship between accounts
<p>Accounts receivable turnover:</p> <ul style="list-style-type: none"> <li>• <math>\text{sales} \div \text{accounts receivable}</math></li> </ul>	Financial ratio
<p>Personnel cost per employee — average payroll-related costs per employee:</p> <ul style="list-style-type: none"> <li>• <math>\text{personnel cost} \div \text{number of employees}</math></li> </ul>	Ratio based on financial and non-financial data
<p>Days' sales outstanding:</p> <ul style="list-style-type: none"> <li>• <math>(\text{accounts receivable} \div \text{sales}) \times \text{days in period}</math></li> </ul>	Financial ratio
Sales and cost of sales:	General relationship between accounts

<ul style="list-style-type: none"> <li>as sales increase, we expect the cost of sales to increase</li> </ul>	
<p>Gross profit margin - i.e. gross profit as a percentage of sales:</p> <ul style="list-style-type: none"> <li><math>(\text{sales} - \text{cost of sales}) \div \text{sales}</math></li> <li>we expect gross profit margin to remain constant, absent known changes — e.g. an increase in sales prices</li> </ul>	Financial ratio
<p>Selling price per unit - average selling price per sales unit:</p> <ul style="list-style-type: none"> <li><math>\text{sales} \div \text{number of items sold}</math></li> </ul>	Ratio based on financial and non-financial data
<p>Inventory turnover:</p> <ul style="list-style-type: none"> <li><math>\text{sales} \div \text{inventory}</math></li> </ul>	Financial ratio
<p>Days sales in inventory:</p> <ul style="list-style-type: none"> <li><math>(\text{inventory} \div \text{cost of sales}) \times \text{days in period}</math></li> </ul>	Financial ratio

## Example of a Management Representation Letter

### International Standards on Review Engagements: ISRE 2410.Appendix 3

## Appendix 3 Example of a Management Representation Letter

The following letter is not intended to be a standard letter. Representations by management will vary from entity to entity and from one interim period to the next.

(Entity Letterhead)

(To Auditor)

(Date)

Opening paragraphs if interim financial information comprises condensed financial statements:

This representation letter is provided in connection with your review of the condensed balance sheet of ABC Entity as of March 31, 20X1 and the related condensed statements of income, changes in equity and cash flows for the three-month period then ended for the purposes of expressing a conclusion whether

anything has come to your attention that causes you to believe that the interim financial information is not prepared, in all material respects, in accordance with [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards].

We acknowledge our responsibility for the preparation and presentation of the interim financial information in accordance with [indicate applicable financial reporting framework].

Opening paragraphs if interim financial information comprises a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation:

This representation letter is provided in connection with your review of the balance sheet of ABC Entity as of March 31, 20X1 and the related statements of income, changes in equity and cash flows for the three-month period then ended and a summary of the significant accounting policies and other explanatory notes for the purposes of expressing a conclusion whether anything has come to your attention that causes you to believe that the interim financial information does not give a true and fair view of (*or "does not present fairly, in all material respects,"*) the financial position of ABC Entity as at March 31, 20X1, and of its financial performance and its cash flows in accordance with [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards].

We acknowledge our responsibility for the fair presentation of the interim financial information in accordance with [indicate applicable financial reporting framework].

We confirm, to the best of our knowledge and belief, the following representations:

- The interim financial information referred to above has been prepared and presented in accordance with [indicate applicable financial reporting framework].
- We have made available to you all books of account and supporting documentation, and all minutes of meetings of shareholders and the board of directors (namely those held on [insert applicable dates]).
- There are no material transactions that have not been properly recorded in the accounting records underlying the interim financial information.
- There has been no known actual or possible noncompliance with laws and regulations that could have a material effect on the interim financial information in the event of noncompliance.
- We acknowledge responsibility for the design and implementation of internal control to prevent and detect fraud and error.
- We have disclosed to you all significant facts relating to any known frauds or suspected frauds that may have affected the entity.
- We have disclosed to you the results of our assessment of the risk that the interim financial information may be materially misstated as the result of fraud.
- We believe the effects of uncorrected misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the interim financial information taken as a whole.
- We confirm the completeness of the information provided to you regarding the identification of related parties.
- The following have been properly recorded and, when appropriate, adequately disclosed in the interim financial information:

- Related party transactions, including sales, purchases, loans, transfers, leasing arrangements and guarantees, and amounts receivable from or payable to related parties;
  - Guarantees, whether written or oral, under which the entity is contingently liable; and
  - Agreements and options to buy back assets previously sold.
- The presentation and disclosure of the fair value measurements of assets and liabilities are in accordance with [indicate applicable financial reporting framework]. The assumptions used reflect our intent and ability to carry specific courses of action on behalf of the entity, where relevant to the fair value measurements or disclosure.
  - We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the interim financial information.
  - We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of realizable value.
  - The entity has satisfactory title to all assets and there are no liens or encumbrances on the entity's assets.
  - We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.
  - [Add any additional representations related to new accounting standards that are being implemented for the first time and consider any additional representations required by a new International Standard on Auditing that are relevant to interim financial information.]

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 may require adjustment to or disclosure in the aforementioned interim financial information.

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(Senior Executive Officer)

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(Senior Financial Officer)

## How do we comply with the Standards? [ISA | KAEGHDWC]

### 1 Interim Review | Obtain specific written representations from management for an interim review [ISA | 4258]

#### What do we do?

Obtain specific written representations from management relevant to the applicable financial reporting framework, industry and entity

#### Why do we do this?

Management representations complement our interim review procedures. Specifically, they serve as a written record of management's acknowledgement that they have fulfilled their responsibilities, their

understanding and evaluation of review differences and their honesty and cooperation with us during the interim review. Accordingly, failure of management to provide written representations requested by the auditor can have serious implications on the interim review and on our report.

## Execute the Audit

Which interim financial information period(s) do management's written representations relate to? [ISA | 4258.1300]

The written representations relate to all interim financial information and periods covered in the review report, including prior periods that are presented in the interim financial information.

Why do we obtain management's written representations about prior periods that have already been reported? [ISA | 4258.1400]

Management reaffirms to us that the written representations from previous period(s) remain appropriate before we sign our review report in the current year, as our review conclusion relates to all periods presented in the interim financial information.

What written representations do we obtain from management if we are issuing more than one review report? [ISA | 4258.1401]

We obtain representations from management for all review reports issued, either in one representation letter, listing the applicable set of interim financial information, or in separate representation letters for each set of interim financial information.

Who prepares the management representation letter (MRL)? [ISA | 4258.1500]

We prepare the MRL template and provide it to management for their review and signature.

How do we prepare the management representation letter? [ISA | 4258.15774]

We first select the appropriate KPMG [example MLR template](https://alex.kpmg.com/AROWeb/document/lfc/GSC_INTL_AUDDOC_DOCSEAUDIT_TOC/toc/GSC_INTL_AUDDOC_DOCSEAUDIT_TOC?tocref=GSC_INTL_AUDDOC_DOCSEAUDIT_TOC), depending on the applicable auditing standards, financial reporting framework used by the entity and legal and regulatory framework in which the entity operates.

We then determine any additional representations to include in the MLR template. Attachment 1 provides additional representations that we may include, depending on the other circumstances that are applicable to the entity. At a minimum, we include all required representations from the auditing standards, which are included in the KPMG example MLR template.

In some circumstances, we use nationally-tailored versions of the base representation letter and/or listing of additional representations.

Once we have compiled all applicable representations into the MRL template, we provide it to management.

How do we determine which additional representations, beyond those which are required, are appropriate in the circumstances of our audit? [ISA | 4258.1600]

We select additional representations based on the specific facts and circumstances of the interim review and the entity we audit. This can include additional representations to address a variety of topics, such as:

- specific circumstances related to the engagement and basis of presentation of the interim financial information (e.g. US GAAP, IFRS);
- specific types of transactions, balances, and disclosures present at the entity;
- the nonexistence of transactions/balances/disclosures or circumstances that commonly exist for entities or entities within a particular industry;
- management's intent (e.g., intention to reinvest undistributed earnings of a foreign subsidiary) or plans (e.g., going concern);
- oral representations made to us by management, explicitly or implicitly, during the course of our interim review work (e.g., disclosure of unique sales terms);
- information presented with the interim financial information that is not contemplated by the base letter (e.g., supplemental information)
- specialized circumstances or disclosures (e.g., restatement, restructuring); and
- management's selection and application of accounting policies or principles, for example non-GAAP policies/practices.

[When might it be appropriate for management to modify the representations we have requested from them?](#) [ISA | 4258.1700]

We expect that management will not make any major revisions to the letter template we provide. We review the signed letter that is provided back to us to allow us to make sure we agree with final version, including any revisions management may have made or proposed.

In some cases, management may modify a representation to further describe and represent relevant facts and circumstances, but not to change or limit its meaning contradict the interim review standards.

Base representations (i.e. required representations), are not to be removed or modified by management unless it adds an "except for" clause to highlight a matter already disclosed in the financial statements and/or disclosed to the auditor. If management modifies the base representations, we perform additional procedures (See activity '[Perform procedures when we are unable to obtain certain written representations, if applicable](#)' to determine what to do).

See activity '[Obtain written representations for all financial statement periods](#)' for examples of modified representations.

[How does the management representation letter address materiality?](#) [ISA | 4258.1800]

Management representations may be limited to matters that are considered individually or in the aggregate to be material to the interim financial information. In order for management to exclude "immaterial" items from its representations, we first come to a common understanding with management as to what is material. Materiality may be different for different representations, similar to the concept of having different materiality considerations for specific areas of the interim review.

A discussion of materiality may be included explicitly in the representation letter, in either qualitative or quantitative terms.

[Does the concept of materiality apply to all management representations?](#) [ISA | 4258.1815]

No. Materiality does not apply to:

- representations not directly related to interim financial information amounts;
  - any representations regarding the possible effects of fraud on other aspects of the interim review;
- or

- items that involve an omission or misstatement of accounting information that, based on the circumstance, would change or influence the judgment of a reasonable person relying on the interim financial information if the omission or misstatement were adjusted

See activity '[Obtain written representations for all financial statement periods](#)' for examples of representations made regardless of materiality.

[Do we attach any information to the management representation letter?](#) [ISA | 4258.1900]

Yes. We attach a summary of uncorrected misstatements, which includes the nature, amount, and effect of the uncorrected misstatements that are not clearly trivial. We also include a listing of omissions of amounts or disclosures in the interim financial information.

We use the KPMG template, Summary of Review Misstatements - Uncorrected (SRM-uncorrected misstatement section) for the summary of uncorrected misstatements unless law, regulation, or custom requires a specified format.

While not required, we also may choose to attach a summary of corrected misstatements.

## Example of Review Reports on Interim Financial Information

### International Standards on Review Engagements: ISRE 2410.Appendix 4

#### Appendix 4 Examples of Review Reports on Interim Financial Information

##### **Complete Set of General Purpose Financial Statements Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation (see paragraph 43(i))**

Report on Review of Interim Financial Information

(Appropriate addressee)

##### *Introduction*

We have reviewed the accompanying balance sheet of ABC Entity as of March 31, 20X1 and the related statements of income, changes in equity and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes.<sup>3</sup> Management is responsible for the preparation and fair presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review.

##### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.<sup>4</sup> A review of interim financial information consists of making inquiries, primarily of persons responsible for financial

and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of (*or "does not present fairly, in all material respects,"*) the financial position of the entity as at March 31, 20X1, and of its financial performance and its cash flows for the three-month period then ended in accordance with [applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards].

AUDITOR

Date

Address

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3 The auditor may wish to specify the regulatory authority or equivalent with whom the interim financial information is filed.

4 In the case of a review of historical financial information other than interim financial information, this sentence should read as follows: "We conducted our review in accordance with International Standard on Review Engagements 2410, which applies to a review of historical financial information performed by the independent auditor of the entity." The remainder of the report should be adapted as necessary in the circumstances.

### **Other Interim Financial Information (see paragraph 43(j))**

Report on Review of Interim Financial Information

(Appropriate addressee)

### *Introduction*

We have reviewed the accompanying [condensed] balance sheet of ABC Entity as of March 31, 20X1 and the related [condensed] statements of income, changes in equity and cash flows for the three-month period then ended.<sup>5</sup> Management is responsible for the preparation and presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.<sup>6</sup> A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with [applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial



reporting framework when the financial reporting framework used is not International Financial Reporting Standards].

AUDITOR

Date

Address

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5 See footnote 1.

6 See footnote 2.

## How do we comply with the Standards? [ISA | KAEGHDWC]

### 1 Interim Review | Prepare and issue a written interim review report [ISA | 4298]

#### What do we do?

Prepare and issue a written interim review report

#### Why do we do this?

Our written review report is our ultimate deliverable that users of the interim financial information receive. It communicates the results of our interim review procedures and whether we became aware of any matters that may indicate that the interim financial information is materially misstated.

#### Execute the Audit

**When do we issue a written report?** [ISA | 4298.1300]

We issue a report no earlier than when:

- we have completed our interim review procedures and formed a conclusion on the interim financial information; and
- those with recognized authority have asserted that they have taken responsibility for the prepared interim financial information.

**How do we prepare and issue an interim review report?** [ISA | 4298.1400]

We prepare and issue a written interim review report in accordance with the [International Standards Reporting Manual](#) [https://alex.kpmg.com/AROWeb/document/lfc/UN\\_IISRM\\_ISRM2018\\_1/toc/UN\\_IISRM\\_ISRM2018\\_1?tocref=UN\\_IISRM\\_ISRM2018\\_1](https://alex.kpmg.com/AROWeb/document/lfc/UN_IISRM_ISRM2018_1/toc/UN_IISRM_ISRM2018_1?tocref=UN_IISRM_ISRM2018_1) (ISRM) and, if relevant, national reporting policies, procedures and guidance as appropriate.

In addition to the applicable reports manual, [ISRM example reports](#) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_AppxB](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_AppxB) are available to facilitate compliance with the reports manuals.

**What are the elements of the review report?**

See ISRM [paragraphs 9.13 - 9.105](#) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_13](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_13).

**When and how do we modify a review report?**

See ISRM [paragraphs 9.145 - 9.175](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_140) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_140](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_255) and [9.255 - 9.265](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_255) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_255](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_255).

How do going concern matters effect a review report?

See ISRM [paragraphs 9.280 - 9.305](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_280) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_280](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_280).

What do we consider when interim financial information consists of a condensed set of financial statements?

See ISRM [paragraphs 9.365 - 9.380](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_365) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_365](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_365).

## Examples

Where can we find example interim review reports? [ISA | 4298.1500]

Where can we find unmodified example reports?

See ISRM [paragraphs 9.110 - 9.130](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_110) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_110](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_110).

Where can we find modified example reports?

See ISRM [paragraphs 9.180 - 9.190](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_180) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_180](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_180).

## Examples of Qualified Review Reports for a Departure from Reporting Framework

### International Standards on Review Engagements: ISRE 2410.Appendix 5

### Appendix 5 Examples of Review Reports with a Qualified Conclusion for a Departure from the Applicable Financial Reporting Framework

**Complete Set of General Purpose Financial Statements Prepared in Accordance with a Financial  
Reporting Framework Designed to Achieve Fair Presentation (see paragraph 43(i))**

Report on Review of Interim Financial Information

(Appropriate addressee)

#### *Introduction*

We have reviewed the accompanying balance sheet of ABC Entity as of March 31, 20X1 and the related statements of income, changes in equity and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes.<sup>7</sup> Management is responsible for the preparation and fair presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review.

#### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.<sup>8</sup> A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Basis for Qualified Conclusion*

Based on information provided to us by management, ABC Entity has excluded from property and long-term debt certain lease obligations that we believe should be capitalized to conform with [indicate applicable financial reporting framework]. This information indicates that if these lease obligations were capitalized at March 31, 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 period then ended.

*Qualified Conclusion*

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of (or "does not present fairly, in all material respects,") the financial position of the entity as at March 31, 20X1, and of its financial performance and its cash flows for the three-month period then ended in accordance with [indicate applicable financial reporting framework, including the reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards].

AUDITOR

Date

Address

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<sup>7</sup> See footnote 1 of Appendix 4.

<sup>8</sup> See footnote 2 of Appendix 4.

**Other Interim Financial Information (see paragraph 43(j))**

Report on Review of Interim Financial Information

(Appropriate addressee)

*Introduction*

We have reviewed the accompanying [condensed] balance sheet of ABC Entity as of March 31, 20X1 and the related [condensed] statements of income, changes in equity and cash flows for the three-month period then ended.<sup>9</sup> Management is responsible for the preparation and presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review.

*Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.<sup>10</sup> A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Basis for Qualified Conclusion*

Based on information provided to us by management, ABC Entity has excluded from property and long-term debt certain lease obligations that we believe should be capitalized to conform with [indicate applicable financial reporting framework]. This information indicates that if these lease obligations were capitalized at March 31, 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 period then ended.

#### *Qualified Conclusion*

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards].

AUDITOR

Date

Address

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<sup>9</sup> See footnote 1 of Appendix 4.

<sup>10</sup> See footnote 2 of Appendix 4.

## How do we comply with the Standards? [ISA | KAEGHDWC]

### 1 Interim Review | Prepare and issue a written interim review report [ISA | 4298]

#### What do we do?

Prepare and issue a written interim review report

#### Why do we do this?

Our written review report is our ultimate deliverable that users of the interim financial information receive. It communicates the results of our interim review procedures and whether we became aware of any matters that may indicate that the interim financial information is materially misstated.

## Execute the Audit

### When do we issue a written report? [ISA | 4298.1300]

We issue a report no earlier than when:

- we have completed our interim review procedures and formed a conclusion on the interim financial information; and
- those with recognized authority have asserted that they have taken responsibility for the prepared interim financial information.

### How do we prepare and issue an interim review report? [ISA | 4298.1400]

We prepare and issue a written interim review report in accordance with the [International Standards Reporting Manual](https://alex.kpmg.com/AROWeb/document/lfc/UN_IISRM_ISRM2018_1/toc/UN_IISRM_ISRM2018_1?tocref=UN_IISRM_ISRM2018_1) [https://alex.kpmg.com/AROWeb/document/lfc/UN\\_IISRM\\_ISRM2018\\_1/toc/UN\\_IISRM\\_ISRM2018\\_1?tocref=UN\\_IISRM\\_ISRM2018\\_1](https://alex.kpmg.com/AROWeb/document/lfc/UN_IISRM_ISRM2018_1/toc/UN_IISRM_ISRM2018_1?tocref=UN_IISRM_ISRM2018_1) (ISRM) and, if relevant, national reporting policies, procedures and guidance as appropriate.

In addition to the applicable reports manual, [ISRM example reports](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_AppxB) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_AppxB](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_AppxB) are available to facilitate compliance with the reports manuals.

#### What are the elements of the review report?

See ISRM [paragraphs 9.13 - 9.105](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_13) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_13](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_13).

#### When and how do we modify a review report?

See ISRM [paragraphs 9.145 - 9.175](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_140) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_140](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_140) and [9.255 - 9.265](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_255) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_255](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_255).

#### How do going concern matters effect a review report?

See ISRM [paragraphs 9.280 - 9.305](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_280) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_280](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_280).

#### What do we consider when interim financial information consists of a condensed set of financial statements?

See ISRM [paragraphs 9.365 - 9.380](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_365) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_365](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_365).

## Examples

### Where can we find example interim review reports? [ISA | 4298.1500]

#### Where can we find unmodified example reports?

See ISRM [paragraphs 9.110 - 9.130](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_110) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_110](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_110).

#### Where can we find modified example reports?

See ISRM [paragraphs 9.180 - 9.190](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_180) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_180](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_180).

## Examples of Qualified Review Reports for a Limitation on Scope

# International Standards on Review Engagements: ISRE 2410.Appendix 6

## Appendix 6 Examples of Review Reports with a Qualified Conclusion for a Limitation on Scope Not Imposed By Management

### **Complete Set of General Purpose Financial Statements Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation (see paragraph 43(i))**

Report on Review of Interim Financial Information

(Appropriate addressee)

#### *Introduction*

We have reviewed the accompanying balance sheet of ABC Entity as of March 31, 20X1 and the related statements of income, changes in equity and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes.<sup>11</sup> Management is responsible for the preparation and fair presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review.

#### *Scope of Review*

Except as explained in the following paragraph, we conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.<sup>12</sup> A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Basis for Qualified Conclusion*

As a result of a fire in a branch office on (date) that destroyed its accounts receivable records, we were unable to complete our review of accounts receivable totaling \$\_\_\_\_\_ included in the interim financial information. The entity is in the process of reconstructing these records and is uncertain as to whether these records will support the amount shown above and the related allowance for uncollectible accounts. Had we been able to complete our review of accounts receivable, matters might have come to our attention indicating that adjustments might be necessary to the interim financial information.

#### *Qualified Conclusion*

Except for the adjustments to the interim financial information that we might have become aware of had it not been for the situation described above, based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of (or "does not present fairly, in all material respects,") the financial position of the entity as at March

31, 20X1, and of its financial performance and its cash flows for the three-month period then ended in accordance with [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards].

AUDITOR

Date

Address

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11 See footnote 1 of Appendix 4.

12 See footnote 2 of Appendix 4.

### **Other Interim Financial Information (see paragraph 43(j))**

Report on Review of Interim Financial Information

(Appropriate addressee)

#### *Introduction*

We have reviewed the accompanying [condensed] balance sheet of ABC Entity as of March 31, 20X1 and the related [condensed] statements of income, changes in equity and cash flows for the three-month period then ended.<sup>13</sup> Management is responsible for the preparation and presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review.

#### *Scope of Review*

Except as explained in the following paragraph, we conducted our review in accordance with International Standards on Review Engagements 2410, *Review of Interim Financial Information Performed by the Auditor of the Entity*.<sup>14</sup> A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Basis for Qualified Conclusion*

As a result of a fire in a branch office on (date) that destroyed its accounts receivable records, we were unable to complete our review of accounts receivable totaling \$\_\_\_\_\_ included in the interim financial information. The entity is in the process of reconstructing these records and is uncertain as to whether these records will support the amount shown above and the related allowance for uncollectible accounts. Had we been able to complete our review of accounts receivable, matters might have come to our attention indicating that adjustments might be necessary to the interim financial information.

#### *Qualified Conclusion*

Except for the adjustments to the interim financial information that we might have become aware of had it not been for the situation described above, based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with [indicate applicable financial reporting framework, including a reference

to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards].

AUDITOR

Date

Address

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13 See footnote 1 of Appendix 4.

14 See footnote 2 of Appendix 4.

## How do we comply with the Standards? [ISA | KAEGHDWC]

### 1 Interim Review | Prepare and issue a written interim review report [ISA | 4298]

#### What do we do?

Prepare and issue a written interim review report

#### Why do we do this?

Our written review report is our ultimate deliverable that users of the interim financial information receive. It communicates the results of our interim review procedures and whether we became aware of any matters that may indicate that the interim financial information is materially misstated.

#### Execute the Audit

**When do we issue a written report?** [ISA | 4298.1300]

We issue a report no earlier than when:

- we have completed our interim review procedures and formed a conclusion on the interim financial information; and
- those with recognized authority have asserted that they have taken responsibility for the prepared interim financial information.

**How do we prepare and issue an interim review report?** [ISA | 4298.1400]

We prepare and issue a written interim review report in accordance with the [International Standards Reporting Manual](#) https://alex.kpmg.com/AROWeb/document/lfc/UN\_IISRM\_ISRM2018\_1/toc/UN\_IISRM\_ISRM2018\_1?tocref=UN\_IISRM\_ISRM2018\_1 (ISRM) and, if relevant, national reporting policies, procedures and guidance as appropriate.

In addition to the applicable reports manual, [ISRM example reports](#) https://alex.kpmg.com/AROWeb/document/lfc/find/UN\_IISRM\_ISRM2018\_AppxB are available to facilitate compliance with the reports manuals.

**What are the elements of the review report?**

See ISRM [paragraphs 9.13 - 9.105](#) https://alex.kpmg.com/AROWeb/document/lfc/find/UN\_IISRM\_ISRM2018\_9\_13.

**When and how do we modify a review report?**



See ISRM [paragraphs 9.145 - 9.175](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_140) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_140](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_255) and [9.255 - 9.265](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_255) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_255](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_255).

[How do going concern matters effect a review report?](#)

See ISRM [paragraphs 9.280 - 9.305](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_280) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_280](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_280).

[What do we consider when interim financial information consists of a condensed set of financial statements?](#)

See ISRM [paragraphs 9.365 - 9.380](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_365) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_365](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_365).

## Examples

[Where can we find example interim review reports? \[ISA | 4298.1500\]](#)

[Where can we find unmodified example reports?](#)

See ISRM [paragraphs 9.110 - 9.130](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_110) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_110](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_110).

[Where can we find modified example reports?](#)

See ISRM [paragraphs 9.180 - 9.190](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_180) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_180](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_180).

## Examples of Adverse Review Reports for a Departure from Reporting Framework

### International Standards on Review Engagements: ISRE 2410.Appendix 7

### Appendix 7 Examples of Review Reports with an Adverse Conclusion for a Departure from the Applicable Financial Reporting Framework

**Complete Set of General Purpose Financial Statements Prepared in Accordance with a Financial  
Reporting Framework Designed to Achieve Fair Presentation (see paragraph 43(i))**

Report on Review of Interim Financial Information

(Appropriate addressee)

#### *Introduction*

We have reviewed the accompanying balance sheet of ABC Entity as of March 31, 20X1 and the related statements of income, changes in equity and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes.<sup>15</sup> Management is responsible for the preparation and fair presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review.

#### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Auditor of the Entity*.<sup>16</sup> A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Basis for Adverse Conclusion*

Commencing this period, management of the entity ceased to consolidate the financial statements of its subsidiary companies since management considers consolidation to be inappropriate because of the existence of new substantial non-controlling interests. This is not in accordance with [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards]. Had consolidated financial statements been prepared, virtually every account in the interim financial information would have been materially different.

#### *Adverse Conclusion*

Our review indicates that, because the entity's investment in subsidiary companies is not accounted for on a consolidated basis, as described in the preceding paragraph, this interim financial information does not give a true and fair view of (or "does not present fairly, in all material respects,") the financial position of the entity as at March 31, 20X1, and of its financial performance and its cash flows for the three-month period then ended in accordance with [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards].

AUDITOR

Date

Address

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<sup>15</sup> See footnote 1 of Appendix 4.

<sup>16</sup> See footnote 2 of Appendix 4.

#### **Other Interim Financial Information (see paragraph 43(j))**

Report on Review of Interim Financial Information

(Appropriate addressee)

#### *Introduction*

We have reviewed the accompanying [condensed] balance sheet of ABC Entity as of March 31, 20X1 and the related [condensed] statements of income, changes in equity and cash flows for the three-month period then ended.<sup>17</sup> Management is responsible for the preparation and presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review.

#### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independence Auditor of the Entity*.<sup>18</sup> A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Basis for Adverse Conclusion*

Commencing this period, management of the entity ceased to consolidate the financial statements of its subsidiary companies since management considers consolidation to be inappropriate because of the existence of new substantial non-controlling interests. This is not in accordance with [indicate applicable financial reporting framework, including the reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards]. Had consolidated financial statements been prepared, virtually every account in the interim financial information would have been materially different.

#### *Adverse Conclusion*

Our review indicates that, because the entity's investment in subsidiary companies is not accounted for on a consolidated basis, as described in the preceding paragraph, this interim financial information is not prepared, in all material respects, in accordance with [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not International Financial Reporting Standards].

AUDITOR

Date

Address

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<sup>17</sup> See footnote 1 of Appendix 4.

<sup>18</sup> See footnote 2 of Appendix 4.

## How do we comply with the Standards? [ISA | KAEGHDWC]

### 1 Interim Review | Prepare and issue a written interim review report [ISA | 4298]

#### What do we do?

Prepare and issue a written interim review report

#### Why do we do this?

Our written review report is our ultimate deliverable that users of the interim financial information receive. It communicates the results of our interim review procedures and whether we became aware of any matters that may indicate that the interim financial information is materially misstated.

## Execute the Audit

### When do we issue a written report? [ISA | 4298.1300]

We issue a report no earlier than when:

- we have completed our interim review procedures and formed a conclusion on the interim financial information; and
- those with recognized authority have asserted that they have taken responsibility for the prepared interim financial information.

### How do we prepare and issue an interim review report? [ISA | 4298.1400]

We prepare and issue a written interim review report in accordance with the [International Standards Reporting Manual](#) [https://alex.kpmg.com/AROWeb/document/lfc/UN\\_IISRM\\_ISRM2018\\_1/toc/UN\\_IISRM\\_ISRM2018\\_1](https://alex.kpmg.com/AROWeb/document/lfc/UN_IISRM_ISRM2018_1/toc/UN_IISRM_ISRM2018_1?tocref=UN_IISRM_ISRM2018_1) (ISRM) and, if relevant, national reporting policies, procedures and guidance as appropriate.

In addition to the applicable reports manual, [ISRM example reports](#) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_AppxB](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_AppxB) are available to facilitate compliance with the reports manuals.

### What are the elements of the review report?

See ISRM [paragraphs 9.13 - 9.105](#) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_13](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_13).

### When and how do we modify a review report?

See ISRM [paragraphs 9.145 - 9.175](#) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_140](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_140) and [9.255 - 9.265](#) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_255](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_255).

### How do going concern matters effect a review report?

See ISRM [paragraphs 9.280 - 9.305](#) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_280](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_280).

### What do we consider when interim financial information consists of a condensed set of financial statements?

See ISRM [paragraphs 9.365 - 9.380](#) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_365](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_365).

## Examples

### Where can we find example interim review reports? [ISA | 4298.1500]

#### Where can we find unmodified example reports?

See ISRM [paragraphs 9.110 - 9.130](#) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_110](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_110).

#### Where can we find modified example reports?

See ISRM [paragraphs 9.180 - 9.190](#) [https://alex.kpmg.com/AROWeb/document/lfc/find/UN\\_IISRM\\_ISRM2018\\_9\\_180](https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_9_180).

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