

STANDARDS AND EMERGING ISSUES ADVISORY GROUP MEETING

DISCUSSION – INTERIM FINANCIAL INFORMATION REVIEWS

JUNE 29, 2023

INTRODUCTION

The PCAOB’s standard-setting agenda includes a mid-term project to consider updates to AS 4105, *Reviews of Interim Financial Information*, to reflect changes in the auditing and reporting environment.

At the June 2023 meeting, members of the Standards and Emerging Issues Advisory Group (SEIAG) will discuss their views and experiences relating to the auditor’s requirements for performing reviews of interim financial information (“interim reviews”). We ask that members read AS 4105 along with this briefing paper, which is intended to facilitate a focused discussion on: (i) the scope and objective of interim reviews; (ii) planning and performing interim review procedures; and (iii) requirements for evaluating, communicating, and reporting the results of interim reviews.

Further, the Board is interested in whether SEIAG members are aware of academic research papers, external reports, or other information that provides additional perspectives on this topic, including potential economic impacts, that should be taken into consideration when considering modifications to PCAOB standards relating to interim reviews.

BACKGROUND

PCAOB standards require auditors to comply with AS 4105 in connection with performing a review of interim financial information. The Securities and Exchange Commission (SEC) requires issuers to engage an independent accountant (i.e., the issuer’s auditor) to review interim financial information before the issuer files such information in its quarterly reports (e.g., Form 10-Q).¹

¹ See Rule 10-01(d) of Regulation S-X for Form 10-Q and item 310(b) of Regulation S-B for Form 10-QSB.

This document was developed by the staff of the Office of the Chief Auditor to foster discussion among the members of the Standards and Emerging Issues Advisory Group at the June 29, 2023 meeting. It is not a statement of the Board; nor does it necessarily reflect the views of the Board, any individual Board member, or PCAOB staff.

AS 4105 describes *interim financial information* as “financial information or statements covering a period less than a full year or for a 12-month period ending on a date other than the [issuer]’s fiscal year end.”² Auditors generally perform interim reviews for each quarter of the issuer’s fiscal year. The objective and scope of an interim review differ significantly from those of an audit, as discussed below.

OBJECTIVE AND SCOPE OF INTERIM REVIEWS

Objective. The objective of an interim review under AS 4105 is to provide the auditor³ with a basis for communicating whether the auditor is aware of any material modifications that should be made to the interim financial information in order for it to conform with generally accepted accounting principles.⁴

The objective of an interim review differs significantly from that of an audit conducted in accordance with the standards of the PCAOB.⁵ In an audit, PCAOB standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.⁶ In contrast, an interim review does not provide a basis for expressing an opinion about whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.⁷

Scope. An interim review consists principally of performing analytical procedures and making inquiries of persons responsible for financial and accounting matters. Unlike an audit, an interim review does not contemplate (a) tests of accounting records through inspection, observation, or confirmation; (b) tests of controls to evaluate their effectiveness; (c) obtaining corroborating evidence in response to inquiries; or (d) performing certain other procedures ordinarily performed in an audit.⁸

Considering the above objective and scope, an interim review may bring to the auditor's attention significant matters affecting the interim financial information, but it would not provide assurance that the auditor is aware of all significant matters that would be identified in an audit.⁹ Further, an interim review is not designed to provide assurance on internal control or to identify significant control deficiencies.¹⁰

² See AS 4105.02.

³ AS 4105 uses the term “accountant” rather than “auditor”. Because interim reviews are generally performed by the company’s auditor, for the purposes of this memo, the term “auditor” is used when describing requirements of AS 4105.

⁴ See AS 4105.07.

⁵ *Id.*

⁶ See e.g., paragraph .09 of AS 3101, *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

⁷ See AS 4105.07.

⁸ *Id.*

⁹ *Id.*

¹⁰ See AS 4105.09.

The SEC requires management, with the participation of the principal executive and financial officers (the certifying officers) to make certain quarterly and annual certifications with respect to the company's internal control over financial reporting.¹¹ AS 4105 requires the auditor to perform limited procedures quarterly to provide a basis for determining whether he or she has become aware of any material modifications that, in the auditor's judgment, should be made to the disclosures about changes in internal control over financial reporting in order for the certifications to be accurate and to comply with the requirements of the SEC.¹²

PLANNING AN INTERIM REVIEW

Planning. In an interim review, the auditor is required to have sufficient knowledge of the company's business and its internal control as they relate to the preparation of both annual and interim financial information to:

- Identify the types of potential material misstatements in the interim financial information and consider the likelihood of their occurrence.
- Select the inquiries and analytical procedures that will provide the auditor with a basis for communicating whether the auditor is aware of any material modifications that should be made to the interim financial information for it to conform with generally accepted accounting principles.¹³

Under AS 4105, auditors are required to update their knowledge of the company's business and its internal control to a) aid in the determination of the inquiries to be made and the analytical procedures to be performed and b) identify particular events, transactions, or assertions to which the inquiries may be directed, or analytical procedures applied. Examples of planning procedures required by AS 4105 include: reading documentation of the preceding year's audit and of reviews of prior interim periods; reading the most recent annual and comparable prior period financial information; and inquiring of management about changes in the company's business activities.¹⁴

Initial Interim Review. In an initial review of interim financial information, the auditor is required to perform procedures that will enable the auditor to obtain sufficient knowledge of the company's business and its internal control to address the objectives of AS 4105. As part of the procedures to obtain this knowledge, the auditor makes inquiries of the predecessor auditor and 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 if the predecessor auditor permits access to such documentation. The auditor should specifically consider the nature of any (a) corrected material misstatements; (b) matters identified in any summary of uncorrected misstatements; (c) identified risks of material misstatement due to fraud, including the risk of management override of

¹¹ See Section 302 of Sarbanes-Oxley Act of 2002.

¹² See AS 4105.07.

¹³ See AS 4105.10.

¹⁴ See AS 4105.11.

controls; and (d) significant financial accounting and reporting matters that may be of continuing significance, such as weaknesses in internal control.¹⁵

INTERIM REVIEW PROCEDURES

An interim review consists principally of analytical procedures and inquiries of persons responsible for financial and accounting matters. As noted above, an interim review does not provide a basis for expressing an audit opinion. The specific analytical procedures, inquiries, and other review procedures performed are tailored to the engagement based on the auditor's knowledge of the company's business and its internal control.¹⁶

Analytical procedures. AS 4105 requires the auditor to 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.¹⁷ Required analytical procedures include, for example:

- Comparing the quarterly interim financial information with comparable information for the immediately preceding interim period and the quarterly and year-to-date interim financial information with the corresponding period(s) in the previous year, giving consideration to knowledge about changes in the company's business and specific transactions;
- Comparing recorded amounts, or ratios developed from recorded amounts, to expectations developed by the auditor; and
- Comparing disaggregated revenue data, for example, comparing revenue by month and by product line or operating segment during the current interim period with that of comparable prior periods.¹⁸

In addition, AS 4105 provides examples of other analytical procedures that the auditor may perform.¹⁹ Expectations developed by the auditor in performing analytical procedures in connection with an interim review ordinarily are less precise than those developed in an audit. Further, in an interim review the auditor ordinarily is not required to corroborate management's responses with other evidence. However, the auditor should consider the reasonableness and consistency of management's responses in light of the results of other review procedures and the accountant's knowledge of the company's business and its internal control.²⁰

Inquiries and other review procedures. The auditor is required to make inquiries of those who have responsibility for financial and accounting matters and perform other review procedures such as,

¹⁵ See AS 4105.12

¹⁶ See AS 4105.15.

¹⁷ See AS 4105.16

¹⁸ *Id.*

¹⁹ See Appendix A of AS 4105.

²⁰ See AS 4105.17.

for example, reading the available minutes of meetings of shareholders. AS 4105 provides a list of required inquiries and related procedures. For example, the auditor is required to inquire about unusual or complex situations that may have an effect on the interim financial information and the status of uncorrected misstatements identified during the previous audit and interim review.²¹

If the auditor becomes aware of information that leads him or her to believe that the interim financial information may not be in conformity with generally accepted accounting principles in all material respects, the auditor should make additional inquiries or perform other procedures that he or she considers appropriate to provide a basis for communicating whether he or she is aware of any material modifications that should be made to the interim financial information.²²

Certain auditing procedures may be performed concurrently with the review of interim financial information. This could include, for example, procedures relating to significant or unusual transactions occurring during the interim period under review (e.g., business combinations, restructurings, or significant revenue transactions).²³

EVALUATING, COMMUNICATING, AND REPORTING THE RESULTS OF INTERIM REVIEWS

As discussed above, a review of interim financial information is not designed to obtain reasonable assurance that the interim financial information is free of material misstatement. However, based on the review procedures performed, the auditor may become aware of likely misstatements.²⁴ Under AS 4105, misstatements identified by the auditor or brought to the auditor's attention, including inadequate disclosure, should be evaluated individually and in the aggregate to determine whether material modification should be made to the interim financial information for it to conform with generally accepted accounting principles.²⁵

If the auditor becomes aware of certain matters, the auditor is required to communicate them to management and, if not appropriately addressed, to the audit committee.²⁶ This applies to matters that cause the auditor to believe that:

- a. material modification should be made to the interim financial information for it to conform with generally accepted accounting principles;
- b. modification to the disclosures about changes in internal control over financial reporting is necessary for the certifications to be accurate and to comply with the requirements of the SEC; and

²¹ See AS 4105.18.

²² See AS 4105.22.

²³ See AS 4105.23

²⁴ See AS 4105.25.

²⁵ See AS 4105.26.

²⁶ See AS 4205.29-.30.

- c. the company filed the Form 10-Q or Form 10-QSB before the completion of the review.²⁷

The auditor is required to communicate to the audit committee if there are any significant deficiencies in internal control²⁸ and consider his or her responsibilities under PCAOB standards and Section 10A of the Securities Exchange Act of 1934 if the auditor becomes aware of any fraud or illegal acts.²⁹

AS 4105 requires the auditor to obtain written representations from management pertaining to all interim financial information presented and for all periods covered by the review.³⁰

AS 4105 does not require the auditor to issue a review report. Nonetheless, the standard provides the form of the review report along with examples and provisions in the event the report needs to be modified. The SEC does not require that the company include a review report with the quarterly filings unless the company states in its filing that the interim financial information has been reviewed by an independent public accountant.³¹

DISCUSSION QUESTIONS:

- What are the expectations of investors, preparers and other stakeholders with regard to reviews of interim financial information? Do you believe there is an expectations gap among different stakeholders with respect to the level of assurance provided in an interim review?
- In your view, what are the advantages or disadvantages of a more risk-based approach to interim reviews? Would there be practical challenges to an approach that, similar to an audit, requires additional attention to areas that are more likely subject to material misstatement?
- Should procedures other than inquiry and analytical procedures be required to be performed in an interim review? If so, what type of procedures should be required and under what circumstances?
- In your experience, what type of analytical procedures are most effective in meeting the objectives of an interim review? For example, should analytical procedures related to revenue be required in all interim reviews? Should analytical procedures on disaggregated information for accounts other than revenue be required? If so, which ones?
- In your experience, how has technology and the use of technology-assisted tools influenced how interim reviews are performed?

²⁷ See AS 4105.29.

²⁸ See AS 4105.33.

²⁹ See AS 4105.32.

³⁰ See AS 4105.24

³¹ See Regulation S-X Rule 10-01(d), 17 C.F.R. § 210.10-01d.

- In your experience, what type of year-end audit procedures are commonly performed concurrently with an interim review? Should there be specific requirements for coordinating the auditing and interim review procedures? If so, what should be required?
- The objective of AS 4105 is to provide the auditor with a basis for communicating whether the auditor is aware of any material modifications that should be made to the interim financial information for it to conform to financial reporting requirements. In your experience, is there a clear understanding among stakeholders of what constitutes a material modification in an interim review? If not, what additional information is needed?
- What additional procedures could be performed if the auditor becomes aware of information that indicates the interim financial information is not in conformity with the applicable financial reporting framework?
- Would there be benefit in requiring the auditor to issue a review report to the audit committee?
- In your experience, are there specific circumstances not addressed in AS 4105 that may occur during an interim review that warrant additional procedures or communication to the audit committee?

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The PCAOB is a nonprofit corporation established by Congress to oversee the audits of public companies in order to protect investors and the public interest by promoting informative, accurate, and independent audit reports. The PCAOB also oversees the audits of broker-dealers, including compliance reports filed pursuant to federal securities laws, to promote investor protection.

APPENDIX: AS 4105, Reviews of Interim Financial Information

Introduction

.01 The purpose of this section is to establish standards and provide guidance on the nature, timing, and extent of the procedures to be performed by an independent accountant when conducting a review of *interim financial information* (as that term is defined in paragraph .02 of this section). The general standards^{1A} are applicable to a review of interim financial information conducted in accordance with this section. This section provides guidance on the application of the field work and reporting standards to a review of interim financial information, to the extent those standards are relevant.

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

.03 The Securities and Exchange Commission (SEC) requires¹ a registrant to engage an independent accountant to review the registrant's interim financial information, in accordance with this section, before the registrant files its quarterly report on Form 10-Q or Form 10-QSB. The SEC also requires management, with the participation of the principal executive and financial officers (the certifying officers) to make certain quarterly and annual certifications with respect to the company's internal control over financial reporting.² Although this section does not require an accountant to issue a written report on a review of interim financial information, the SEC requires that an accountant's review report be filed with the interim financial information if, in any filing, the entity states that the interim financial information has been reviewed by an independent public accountant. Paragraphs .37 through .46 of this section provide reporting guidance for a review of interim financial information.

.04 AS 2610, *Initial Audits—Communications Between Predecessor and Successor Auditors*, requires a successor auditor to contact the entity's predecessor auditor and make inquiries of the predecessor auditor in deciding whether to accept appointment as an entity's independent auditor. Such inquiries should be completed before accepting an engagement to perform an initial review of an entity's interim financial information.

^{1A} See AS 1005, *Independence*, AS 1010, *Training and Proficiency of the Independent Auditor*, and AS 1015, *Due Professional Care in the Performance of Work*.

¹ The Securities and Exchange Commission (SEC) requirement is set forth in Rule 10-01(d) of Regulation S-X for Form 10-Q and item 310(b) of Regulation S-B for Form 10-QSB.

² See Section 302 of the Sarbanes-Oxley Act of 2002, and Securities Exchange Act Rule 13a-14(a) or 15d-14(a), (17 C.F.R. § 240.13a-14a or 17 C.F.R. § 240.15d-14a), whichever applies.

Applicability^{2A}

.05 An accountant may conduct, in accordance with this section, a review of the interim financial information of an SEC registrant³ or of a non-SEC registrant that makes a filing with a regulatory agency⁴ in preparation for a public offering or listing, if the entity's latest annual financial statements have been or are being audited. The interim financial information may be presented in the form of financial statements or in a summarized form that purports to conform with generally accepted accounting principles⁵ and applicable regulatory requirements, for example, Article 10 of Regulation S-X for Form 10-Q.

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

Objective of a Review of Interim Financial Information

.07 The objective of a review of interim financial information pursuant to this section is to provide the accountant with a basis for communicating whether he or she is aware of any material modifications that should be made to the interim financial information for it to conform with generally accepted accounting principles. The objective of a review of interim financial information differs significantly from that of an audit conducted in accordance with the standards of the PCAOB. A review of interim financial information does not provide a basis for expressing an opinion about whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles. A review consists principally of performing analytical procedures and making inquiries of persons responsible for financial and accounting matters, and does not contemplate (a) tests of accounting records through inspection, observation, or confirmation; (b) tests of controls to evaluate their effectiveness; (c) obtaining corroborating evidence in response to inquiries; or (d) performing

^{2A} Statements on Standards for Accounting and Review Services provide guidance for review engagements for which this section is not applicable.

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

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

⁵ Accounting Principles Board (APB) Opinion No. 28, Interim Financial Reporting, outlines the application of U.S. generally accepted accounting principles to the determination of income when interim financial information is presented, provides for the use of estimated effective income tax rates, and specifies certain disclosure requirements for summarized interim financial information issued by public companies.

certain other procedures ordinarily performed in an audit. A review may bring to the accountant's attention significant matters affecting the interim financial information, but it does not provide assurance that the accountant will become aware of all significant matters that would be identified in an audit. Paragraph .22 of this section provides guidance to the accountant if he or she becomes aware of information that leads him or her to believe that the interim financial information may not be in conformity with generally accepted accounting principles. Likewise, the auditor's responsibility as it relates to management's quarterly certifications on internal control over financial reporting is different from the auditor's responsibility as it relates to management's annual assessment of internal control over financial reporting. The auditor should perform limited procedures quarterly to provide a basis for determining whether he or she has become aware of any material modifications that, in the auditor's judgment, should be made to the disclosures about changes in internal control over financial reporting in order for the certifications to be accurate and to comply with the requirements of Section 302 of the Act.

Note: The auditor's responsibilities for evaluating management's certification disclosures about internal control over financial reporting take effect beginning with the first quarter after the company's first annual assessment of internal control over financial reporting as described in Item 308(a)(3) of Regulations S-B and SK.

Establishing an Understanding with the Audit Committee

.08 The accountant should establish an understanding of the terms of an engagement to review interim financial information with the audit committee or others with equivalent authority and responsibility (hereafter referred to as the audit committee).⁶ This understanding includes the objective of the review of interim financial information, the responsibilities of the accountant, and the responsibilities of management. Such an understanding reduces the risk that either the accountant or the audit committee may misinterpret the needs or expectations of the other party. The accountant should record this understanding of the terms of the engagement in an engagement letter and should provide the engagement letter to the audit committee. The accountant should have the engagement letter executed by the appropriate party or parties on behalf of the company. If the appropriate party or parties are other than the audit committee, or its chair on behalf of the audit committee, the accountant should determine that the audit committee has acknowledged and agreed to the terms of the engagement. If the accountant believes he or she cannot establish an understanding of the terms of an engagement to review interim financial information with the audit committee, the accountant should decline to accept, continue, or perform the engagement.

.09 An understanding with the audit committee regarding a review of interim financial information generally includes the following matters:

- The objective of a review of interim financial information is to provide the accountant with a basis for communicating whether he or she is aware of any material modifications that should be made to the interim financial information for it to conform with accounting principles generally accepted in the United States of America.

⁶ See paragraph .16 of QC sec. 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

- Management is responsible for the entity's interim financial information.
- Management is responsible for establishing and maintaining effective internal control over financial reporting.
- Management is responsible for identifying and ensuring that the entity complies with the laws and regulations applicable to its activities.
- Management is responsible for making all financial records and related information available to the accountant.
- At the conclusion of the engagement, management will provide the accountant with a letter confirming certain representations made during the review.
- Management is responsible for adjusting the interim financial information to correct material misstatements. Although a review of interim financial information is not designed to obtain reasonable assurance that the interim financial information is free from material misstatement, management also is responsible for affirming in its representation letter to the accountant that the effects of any uncorrected misstatements aggregated by the accountant during the current engagement and pertaining to the current-year period(s) under review are immaterial, both individually and in the aggregate, to the interim financial information taken as a whole.
- The accountant is responsible for conducting the review in accordance with the standards of the PCAOB. A review of interim financial information consists principally of performing analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, the accountant will not express an opinion on the interim financial information.
- A review includes obtaining sufficient knowledge of the entity's business and its internal control as it relates to the preparation of both annual and interim financial information to:
 - Identify the types of potential material misstatements in the interim financial information and consider the likelihood of their occurrence.
 - Select the inquiries and analytical procedures that will provide the accountant with a basis for communicating whether he or she is aware of any material modifications that should be made to the interim financial information for it to conform with generally accepted accounting principle.
- A review is not designed to provide assurance on internal control or to identify significant deficiencies. However, the accountant is responsible for communicating with the audit committee or others with equivalent authority or responsibility, regarding any significant deficiencies that come to his or her attention.

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

.10 To perform a review of interim financial information, the accountant should have sufficient knowledge of the entity's business and its internal control as they relate to the preparation of both annual and interim financial information to:

- Identify the types of potential material misstatements in the interim financial information and consider the likelihood of their occurrence.
- Select the inquiries and analytical procedures that will provide the accountant with a basis for communicating whether he or she is aware of any material modifications that should be made to the interim financial information for it to conform with generally accepted accounting principles.

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

- Reading documentation of the preceding year's audit and of reviews of prior interim period(s) of the current year and corresponding quarterly and year-to-date interim period(s) of the prior year to the extent necessary, based on the accountant's judgment, to enable the accountant to identify matters that may affect the current-period interim financial information. In reading such documents, the accountant should specifically consider the nature of any (a) corrected material misstatements; (b) matters identified in any summary of uncorrected misstatements;⁷ (c) identified risks of material misstatement due to fraud, including the risk of management override of controls; and (d) significant financial accounting and reporting matters that may be of continuing significance, such as weaknesses in internal control.
- Reading the most recent annual and comparable prior interim period financial information.
- Considering the results of any audit procedures performed with respect to the current year's financial statements.
- Inquiring of management about changes in the entity's business activities.
- Inquiring of management about whether significant changes in internal control, as it relates to the preparation of interim financial information, have occurred subsequent to the preceding annual audit or prior review of interim financial information, including

⁷ Paragraphs .10 through .23 of AS 2810, *Evaluating Audit Results*, require the auditor to accumulate and evaluate the misstatements identified during the audit. Paragraphs .25 and .26 of this section describe the accountant's consideration of such misstatements in a review of interim financial information.

changes in the entity's policies, procedures, and personnel, as well as the nature and extent of such changes.

.12 In an initial review of interim financial information, the accountant should perform procedures that will enable him or her to obtain sufficient knowledge of the entity's business and its internal control to address the objectives discussed in paragraph .07 of this section. As part of the procedures to obtain this knowledge, the accountant performing an initial review of interim financial information makes inquiries of the predecessor accountant and reviews the predecessor accountant's documentation for the preceding annual audit and for any prior interim periods in the current year that have been reviewed by the predecessor accountant if the predecessor accountant permits access to such documentation.⁸ In doing so, the accountant should specifically consider the nature of any (a) corrected material misstatements; (b) matters identified in any summary of uncorrected misstatements; (c) identified risks of material misstatement due to fraud, including the risk of management override of controls; and (d) significant financial accounting and reporting matters that may be of continuing significance, such as weaknesses in internal control. However, the inquiries made and analytical procedures performed or other procedures performed in the initial review and the conclusions reached are solely the responsibility of the successor accountant. If the successor accountant is reporting on the review, the successor accountant should not make reference to the report or work of the predecessor accountant as the basis, in part, for the successor accountant's own report. If the predecessor accountant does not respond to the successor accountant's inquiries, or does not allow the successor accountant to review the predecessor accountant's documentation, the successor accountant should use alternative procedures to obtain knowledge of the matters discussed in this paragraph.

.13 The accountant who has audited the entity's financial statements for one or more annual periods would have acquired sufficient knowledge of an entity's internal control as it relates to the preparation of annual financial information and may have acquired such knowledge with respect to interim financial information. If the accountant has not audited the most recent annual financial statements, the accountant should perform procedures to obtain such knowledge. Knowledge of an entity's internal control, as it relates to the preparation of both annual and interim financial information, includes knowledge of the relevant aspects of the control environment, the entity's risk assessment process, control activities, information and communication, and monitoring, as those terms are defined in AS 2110, *Identifying and Assessing Risks of Material Misstatement*. Internal control over the preparation of interim financial information may differ from internal control over the preparation of annual financial statements because certain accounting principles and practices used for interim financial information may differ from those used for the preparation of annual financial statements, for example, the use of estimated effective income tax rates for the preparation of interim financial information, which is prescribed by Accounting Principles Board (APB) Opinion No. 28, *Interim Financial Reporting*.

.14 A restriction on the scope of the review may be imposed if the entity's internal control appears to contain deficiencies so significant that it would be impracticable for the accountant, based on his or her judgment, to effectively perform review procedures that would provide a basis for

⁸ The accountant also may consider reviewing the predecessor accountant's documentation related to reviews of interim period(s) in the prior year.

communicating whether he or she is aware of any material modifications that should be made to the interim financial information for it to conform with generally accepted accounting principles.⁹

Analytical Procedures, Inquiries, and Other Review Procedures

.15 Procedures for conducting a review of interim financial information generally are limited to analytical procedures, inquiries, and other procedures that address significant accounting and disclosure matters relating to the interim financial information to be reported. The accountant performs these procedures to obtain a basis for communicating whether he or she is aware of any material modifications that should be made to the interim financial information for it to conform with generally accepted accounting principles. The specific inquiries made and the analytical and other procedures performed should be tailored to the engagement based on the accountant's knowledge of the entity's business and its internal control. The accountant's knowledge of an entity's business and its internal control influences the inquiries made and analytical procedures performed. For example, if the accountant becomes aware of a significant change in the entity's control activities at a particular location, the accountant may consider (a) making additional inquiries, such as whether management monitored the changes and considered whether they were operating as intended, (b) employing analytical procedures with a more precise expectation, or (c) both.

.16 *Analytical procedures and related inquiries.* The accountant should apply analytical procedures to the interim financial information to identify and provide a basis for inquiry about the relationships and individual items that appear to be unusual and that may indicate a material misstatement. Analytical procedures, for the purposes of this section, should include:

- Comparing the quarterly interim financial information with comparable information for the immediately preceding interim period and the quarterly and year-to-date interim financial information with the corresponding period(s) in the previous year, giving consideration to knowledge about changes in the entity's business and specific transactions.
- Considering plausible relationships among both financial and, where relevant, nonfinancial information. The accountant also may wish to consider information developed and used by the entity, for example, information in a director's information package or in a senior committee's briefing materials.
- Comparing recorded amounts, or ratios developed from recorded amounts, to expectations developed by the accountant. The accountant develops such expectations by identifying and using plausible relationships that are reasonably expected to exist based on the accountant's understanding of the entity and the industry in which the entity operates (see paragraph .17 of this section).
- Comparing disaggregated revenue data, for example, comparing revenue reported by month and by product line or operating segment during the current interim period with that of comparable prior periods.

⁹ See paragraph .28 of this section.

See Appendix A [paragraph .54] of this section for examples of analytical procedures an accountant may consider performing when conducting a review of interim financial information. The accountant may find the guidance in AS 2305, *Substantive Analytical Procedures*, useful in conducting a review of interim financial information.

.17 Expectations developed by the accountant in performing analytical procedures in connection with a review of interim financial information ordinarily are less precise than those developed in an audit. Also, in a review the accountant ordinarily is not required to corroborate management's responses with other evidence. However, the accountant should consider the reasonableness and consistency of management's responses in light of the results of other review procedures and the accountant's knowledge of the entity's business and its internal control.¹⁰

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

- a. Reading the available minutes of meetings of stockholders, directors, and appropriate committees, and inquiring about matters dealt with at meetings for which minutes are not available, to identify matters that may affect the interim financial information.
- b. Obtaining reports from other accountants, if any, who have been engaged to perform a review of the interim financial information of significant components of the reporting entity or its other business units, or inquiring of those accountants if reports have not been issued.¹¹
- c. Inquiring of members of management who have responsibility for financial and accounting matters concerning:
 - Whether the interim financial information has been prepared in conformity with generally accepted accounting principles consistently applied.
 - Unusual or complex situations that may have an effect on the interim financial information. (See Appendix B [paragraph .55] of this section for examples of unusual or complex situations about which the accountant ordinarily would inquire of management.)
 - Significant transactions occurring or recognized in the last several days of the interim period.
 - The status of uncorrected misstatements identified during the previous audit and interim review (that is, whether adjustments had been recorded subsequent to the

¹⁰ See paragraph .22 of this section.

¹¹ In these circumstances, the accountant ordinarily is in a position similar to that of an auditor who acts as principal auditor (see AS 1205, *Part of the Audit Performed by Other Independent Auditors*) and makes use of the work or reports of other auditors in the course of an audit of financial statements.

prior audit or interim period and, if so, the amounts recorded and period in which such adjustments were recorded).

- Matters about which questions have arisen in the course of applying the review procedures.
 - Events subsequent to the date of the interim financial information that could have a material effect on the presentation of such information.
 - Their knowledge of any fraud or suspected fraud affecting the entity involving (1) management, (2) employees who have significant roles in internal control, or (3) others where the fraud could have a material effect on the financial statements.
 - Whether they are aware of allegations of fraud or suspected fraud affecting the entity, for example, received in communications from employees, former employees, analysts, regulators, short sellers, or others.
 - Significant journal entries and other adjustments.
 - Communications from regulatory agencies.
 - Significant deficiencies, including material weaknesses, in the design or operation of internal controls which could adversely affect the issuer's ability to record, process, summarize, and report financial data.
- d. Obtaining evidence that the interim financial information agrees or reconciles with the accounting records. For example, the accountant may compare the interim financial information to (1) the accounting records, such as the general ledger; (2) a consolidating schedule derived from the accounting records; or (3) other supporting data in the entity's records. In addition, the accountant should consider inquiring of management as to the reliability of the records to which the interim financial information was compared or reconciled.
- e. Reading the interim financial information to consider whether, based on the results of the review procedures performed and other information that has come to the accountant's attention, the information to be reported conforms with generally accepted accounting principles.
- f. Reading other information that accompanies the interim financial information and is contained in reports (1) to holders of securities or beneficial interests or (2) filed with regulatory authorities under the Securities Exchange Act of 1934 (such as Form 10-Q or 10-QSB), to consider whether such information or the manner of its presentation is materially inconsistent with the interim financial information.¹² If the accountant concludes that there is a material inconsistency, or becomes aware of information that he or she believes is a material misstatement of fact, the action taken will depend on his

¹² The principal accountant also may request other accountants involved in the engagement, if any, to read the other information.

or her judgment in the particular circumstances. In determining the appropriate course of action, the accountant should consider the guidance in paragraphs .04 through .06 of AS 2710, *Other Information in Documents Containing Audited Financial Statements*.

- g. Evaluating management's quarterly certifications about internal control over financial reporting by performing the following procedures—
- Inquiring of management about significant changes in the design or operation of internal control over financial reporting as it relates to the preparation of annual as well as interim financial information that could have occurred subsequent to the preceding annual audit or prior review of interim financial information;
 - Evaluating the implications of misstatements identified by the auditor as part of the auditor's other interim review procedures as they relate to effective internal control over financial reporting; and
 - Determining, through a combination of observation and inquiry, whether any change in internal control over financial reporting has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

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

.20 *Inquiry concerning litigation, claims, and assessments.* A review of interim financial information does not contemplate obtaining corroborating evidence for responses to inquiries concerning litigation, claims, and assessments (see paragraph .07 of this section). Consequently, it ordinarily is not necessary to send an inquiry letter to an entity's lawyer concerning litigation, claims, and assessments. However, if information comes to the accountant's attention that leads him or her to question whether the interim financial information departs from generally accepted accounting principles¹³ with respect to litigation, claims, or assessments, and the accountant believes the entity's lawyer may have information concerning that question, an inquiry of the lawyer concerning the specific question is appropriate.

.21 *Inquiry concerning an entity's ability to continue as a going concern.* A review of interim financial information is not designed to identify conditions or events that may indicate substantial doubt about an entity's ability to continue as a going concern. However, such conditions or events may have

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

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

.22 *Extension of interim review procedures.* If, in performing a review of interim financial information, the accountant becomes aware of information that leads him or her to believe that the interim financial information may not be in conformity with generally accepted accounting principles in all material respects, the accountant should make additional inquiries or perform other procedures that the accountant considers appropriate to provide a basis for communicating whether he or she is aware of any material modifications that should be made to the interim financial information. For example, if the accountant's interim review procedures lead him or her to question whether a significant sales transaction is recorded in conformity with generally accepted accounting principles, the accountant should perform additional procedures, such as discussing the terms of the transaction with senior marketing and accounting personnel, reading the sales contract, or both, to resolve his or her questions.

.23 *Coordination with the audit.* The accountant performing the review of interim financial information ordinarily will also be engaged to perform an audit of the annual financial statements of the entity. Certain auditing procedures may be performed concurrently with the review of interim financial information. For example, information gained from reading the minutes of meetings of the board of directors in connection with the review also may be used for the annual audit. Also, there may be significant or unusual transactions occurring during the interim period under review for which the auditing procedures that would need to be performed for purposes of the audit of the annual financial statements could be performed, to the extent practicable, at the time of the interim review, for example, business combinations, restructurings, or significant revenue transactions.

Written Representations From Management

.24 Written representations from management should be obtained for all interim financial information presented and for all periods covered by the review. Specific representations should relate to the following matters:¹⁶

Financial Statements

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

¹⁵ Information that might be disclosed is set forth in paragraph .10 of AS 2415, *Consideration of an Entity's Ability to Continue as a Going Concern*. If the accountant determines that the disclosure about the entity's possible inability to continue as a going concern is inadequate, a departure from generally accepted accounting principles exists.

¹⁶ For additional guidance regarding written management representations, see paragraphs .08 through .12 of AS 2805, *Management Representations*.

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

Internal Control

- c. Disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls which could adversely affect the issuer's ability to record, process, summarize, and report financial data.
- d. Acknowledgment of management's responsibility for the design and implementation of programs and controls to prevent and detect fraud.
- e. Knowledge of fraud or suspected fraud affecting the entity involving (1) management, (2) employees who have significant roles in internal control, or (3) others where the fraud could have a material effect on the financial statements.
- f. Knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, short sellers, or others.

Completeness of Information

- g. Availability of all financial records and related data, including the names of all related parties and all relationships and transactions with related parties.
- h. Completeness and availability of all minutes of meetings of stockholders, directors, and committees of directors.
- i. Communications with regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
- j. Absence of (1) unrecorded transactions and (2) side agreements or other arrangements (either written or oral) undisclosed to the auditor.

Recognition, Measurement, and Disclosure

- k. Management's belief that the effects of any uncorrected financial statement misstatements aggregated by the accountant during the current review engagement and pertaining to the interim period(s) in the current year are immaterial, both

individually and in the aggregate, to the interim financial information taken as a whole. (A summary of such items should be included in or attached to the letter.)¹⁷

- l. Plans or intentions that may materially affect the carrying value or classification of assets or liabilities.
- m. Information concerning related party transactions and amounts receivable from or payable to related parties, including support for any assertion that a transaction with a related party was conducted on terms equivalent to those prevailing in an arm's-length transaction.
- n. Guarantees, whether written or oral, under which the entity is contingently liable.
- o. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with the AICPA's Statement of Position 94-6, *Disclosure of Certain Significant Risks and Uncertainties*.
- p. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the interim financial information or as a basis for recording a loss contingency.
- q. Unasserted claims or assessments that are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*.
- r. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
- s. Satisfactory title to all owned assets, liens or encumbrances on such assets, and assets pledged as collateral.
- t. Compliance with aspects of contractual agreements that may affect the interim financial information.

Subsequent Events

- u. Information concerning subsequent events.

The representation letter ordinarily should be tailored to include additional representations from management related to matters specific to the entity's business or industry. Appendix C [paragraph .56] of this section presents illustrative representation letters.

Evaluating the Results of Interim Review Procedures

.25 A review of interim financial information is not designed to obtain reasonable assurance that the interim financial information is free of material misstatement. However, based on the review

¹⁷ If a summary of uncorrected misstatements is unnecessary because there were no uncorrected misstatements identified, this representation should be eliminated.

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

.26 Misstatements identified by the accountant or brought to the accountant's attention, including inadequate disclosure,¹⁸ should be evaluated individually and in the aggregate to determine whether material modification should be made to the interim financial information for it to conform with generally accepted accounting principles.¹⁹ The accountant should use his or her professional judgment in evaluating the materiality of any likely misstatements that the entity has not corrected. The accountant should consider matters such as (a) the nature, cause (if known), and amount of the misstatements; (b) whether the misstatements originated in the preceding year or interim periods of the current year; (c) materiality judgments made in conjunction with the current or prior year's annual audit; and (d) the potential effect of the misstatements on future interim or annual periods.

.27 When evaluating whether uncorrected likely misstatements, individually or in the aggregate, are material, the accountant also should (a) consider the appropriateness of offsetting a misstatement of an estimated amount with a misstatement of an item capable of precise measurement

¹⁸ Rule 10-01 of Regulation S-X states—

The interim financial information shall include disclosures either on the face of the financial statements or in accompanying footnotes sufficient so as to make the interim information presented not misleading. Registrants may presume that users of the interim financial information have read or have access to the audited financial statements for the preceding fiscal year and that the adequacy of additional disclosure needed for a fair presentation, except in regard to material contingencies, may be determined in that context. Accordingly, footnote disclosure which would substantially duplicate the disclosure contained in the most recent annual report to security holders or latest audited financial statements, such as a statement of significant accounting policies and practices, details of accounts which have not changed significantly in amount or composition since the end of the most recently completed fiscal year, and detailed disclosures prescribed by Rule 4-08 of this Regulation, may be omitted. However, disclosure shall be provided where events subsequent to the end of the most recent fiscal year have occurred which have a material impact on the registrant. Disclosures should encompass for example, significant changes since the end of the most recently completed fiscal year in such items as: accounting principles and practices; estimates inherent in the preparation of the financial statements; status of long-term contracts; capitalization including significant new borrowings or modification of existing financing arrangements; and the reporting entity resulting from business combinations or dispositions. Notwithstanding the above, where material contingencies exist, disclosure of such matters shall be provided even though a significant change since year end may not have occurred.

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

and (b) recognize that an accumulation of immaterial misstatements in the balance sheet could contribute to material misstatements in future periods.

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

Communications to Management, Audit Committees, and Others

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

- a. material modification should be made to the interim financial information for it to conform with generally accepted accounting principles;
- b. modification to the disclosures about changes in internal control over financial reporting is necessary for the certifications to be accurate and to comply with the requirements of Section 302 of the Act and Securities Exchange Act Rule 13a-14(a) or 15d-14(a), whichever applies; and
- c. the entity filed the Form 10-Q or Form 10-QSB before the completion of the review.

In such circumstances, the accountant should communicate the matter(s) to the appropriate level of management as soon as practicable.

.30 If management does not respond appropriately to the accountant's communication within a reasonable period of time, the accountant should communicate these matters to the audit committee as soon as practicable and prior to the registrant filing its periodic report with the SEC. The communications to the audit committee should be made and documented in accordance with paragraph .25 of AS 1301, *Communications with Audit Committees*.

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

.32 If the auditor becomes aware of information indicating that fraud or an illegal act has or may have occurred, the auditor must also determine his or her responsibilities under AS

2401, *Consideration of Fraud in a Financial Statement Audit*, AS 2405, *Illegal Acts by Clients*, and Section 10A of the Securities Exchange Act of 1934.^{20 21}

.33 When conducting a review of interim financial information, the accountant may become aware of matters relating to internal control that may be of interest to the audit committee. Matters that should be reported to the audit committee are referred to as significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting, that is less severe than a material weakness yet important enough to merit attention by those responsible for oversight of the company's financial reporting. The accountant should communicate significant deficiencies or material weaknesses of which the accountant has become aware to the audit committee or those responsible for oversight of the company's financial reporting in a timely manner and prior to the registrant filing its periodic report with the SEC.

.34 When conducting a review of interim financial information, the accountant also should determine whether any of the matters described in AS 1301, as they relate to interim financial information, have been identified. If such matters have been identified, the accountant should communicate them to the audit committee in a timely manner and prior to the registrant filing its periodic report with the SEC. For example, the accountant should communicate a description of the process management used to develop the critical accounting estimates; a change in a significant accounting policy affecting the interim financial information; misstatements that, either individually or in the aggregate, could have a significant effect on the entity's financial reporting process; and uncorrected misstatements aggregated by the accountant that management determined to be immaterial, both individually and in the aggregate, to the interim financial statements taken as a whole.²²²³ As part of its communications to the audit committee, management might communicate some or all of the matters related to the company's accounting policies, practices, estimates, and significant unusual transactions described in AS 1301.12. If management communicates any of these matters, the accountant does not need to communicate them at the same level of detail as management, as long as the accountant (1) participated in management's discussion with the audit committee, (2) affirmatively confirmed to the audit committee that management has adequately communicated these matters, and (3) with respect to critical accounting policies and practices, identified for the audit committee those accounting policies and practices that the accountant considers critical. The accountant should communicate any omitted or inadequately described matters to the audit committee.

.35 The objective of a review of interim financial information differs significantly from that of an audit. Therefore, any communication the accountant may make about the entity's accounting policies, practices, estimates, and significant unusual transactions as applied to its interim financial reporting, generally would be limited to the effect of significant events, transactions, and changes in accounting estimates that the accountant considered when conducting the review of interim financial information. Further, interim review procedures do not provide assurance that the accountant will

²⁰ [Footnote deleted].

²¹ See 15 U.S.C. § 78j-1.

²² [Footnote deleted]

²³ The schedule of uncorrected misstatements related to accounts and disclosures provided to the audit committee should be the same schedule that was included in or attached to the management representation letter that is described in paragraph .24(k) of this section.

become aware of all matters that might affect the accountant's judgments about the qualitative aspects of the entity's accounting policies and practices that would be identified as a result of an audit.

.36 If the accountant has identified matters to be communicated to the audit committee, the accountant should communicate such matters to the audit committee, or at least its chair, in a timely manner and prior to the registrant filing its periodic report with the SEC. The communications to the audit committee should be made and documented in accordance with AS 1301.25.

The Accountant's Report on a Review of Interim Financial Information²⁴

Form of Accountant's Review Report

.37 The accountant's review report accompanying interim financial information must include the title, "Report of Independent Registered Public Accounting Firm."

.37A If the accountant's review report is included in a filing with the SEC or another regulatory agency, the report must be addressed to the shareholders and the board of directors, or equivalents for companies not organized as corporations. The accountant's review report may include additional addressees.

.37B The first section of the accountant's review report must include the section title "Results of Review of Interim Financial Information" and the following elements:

- a. The name of the company whose interim financial information was reviewed.
- b. A statement that the interim financial information identified in the report was reviewed.
- c. A statement about whether the accountant is aware of any material modifications that should be made to the accompanying interim financial information for it to conform with generally accepted accounting principles. The statement should include an identification of the country of origin of those accounting principles (for example, accounting principles generally accepted in the United States of America or U.S. generally accepted accounting principles).

.37C The second section of the accountant's review report must include the section title "Basis for Review Results" and the following elements:

- a. A statement that the interim financial information is the responsibility of the entity's management.
- b. A statement that the review of interim financial information was conducted in accordance with the standards of the PCAOB.
- c. A description of the procedures for a review of interim financial information.

²⁴ Paragraphs .37 through .46 of this section provide reporting guidance for a review of interim financial information; however, an accountant is not required to issue a report on such engagements.

- d. A statement that a review of interim financial information is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is an expression of an opinion regarding the financial statements taken as a whole, and accordingly, no such opinion is expressed.
- e. A statement that the auditor is a public accounting firm registered with the PCAOB (United States) and is required to be independent with respect to the company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the SEC and the PCAOB.

.37D The accountant's review report must include the following elements:

- a. The signature of the accountant's firm.^{24A}
- b. The city and state (or city and country, in the case of non-U.S. auditors) from which the accountant's review report has been issued.^{24B}
- c. The date of the review report. (Generally, the report should be dated as of the date of completion of the review procedures.²⁵)

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

.38 The following is an example of a review report:²⁶

Report of Independent Registered Public Accounting Firm

To the shareholders and the board of directors of ABC Company

Results of Review of Interim [*Financial Information or Statements*]

We have reviewed the accompanying [*describe the interim financial information or statements reviewed*] of ABC Company (the "Company") and consolidated subsidiaries as of September 30, 20X1, and for the three-month and nine-month periods then ended, and the related notes [*and schedules*] (collectively referred to as the "interim financial information or statements"). Based on our review, we are not aware of any material modifications that should be made to the

^{24A} See SEC Rule 2-02(a) of Regulation S-X, 17 C.F.R. § 210.2-02(a).

^{24B} Id.

²⁵ Other reporting issues related to the dating of reports or subsequent events are similar to those encountered in an audit of financial statements. See AS 3110, *Dating of the Independent Auditor's Report*, and AS 2801, *Subsequent Events*.

²⁶ If interim financial information of a prior period is presented with that of the current period and the accountant has conducted a review of that information, the accountant should report on his or her review of the prior period. An example of the first sentence of such a report follows: "We have reviewed ... of ABC Company and consolidated subsidiaries as of September 30, 20X1 and 20X2, and for the three-month and nine-month periods then ended...."

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

Basis for Review Results

This (These) interim financial information (statements) is (are) the responsibility of the Company's management. We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

[Signature]

[City and State or Country]

[Date]

.39 An accountant may be engaged to report on a review of comparative interim financial information. The following is an example of a review report on a condensed balance sheet as of March 31, 20X1, the related condensed statements of income and cash flows for the three-month periods ended March 31, 20X1 and 20X0, and a condensed balance sheet derived from audited financial statements as of December 31, 20X0, that were included in Form 10-Q.²⁷

Report of Independent Registered Public Accounting Firm

To the shareholders and the board of directors of ABC Company

Results of Review of Interim [*Financial Information or Statements*]

We have reviewed the condensed consolidated balance sheet of ABC Company (the "Company") and subsidiaries as of March 31, 20X1, and the related condensed consolidated statements of income and cash flows for the three-month periods ended March 31, 20X1 and 20X0, and the related notes [*and schedules*] (collectively referred to as the "interim financial information or statements"). Based on our reviews, we are not aware of any material modifications that should

²⁷ Regulation S-X specifies that the following financial information should be provided in filings on Form 10-Q:

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

be made to the condensed financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheet of the Company and subsidiaries as of December 31, 20X0, and the related consolidated statements of income, retained earnings, and cash flows for the year then ended (not presented herein); and in our report dated February 15, 20X1, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 20X0, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.²⁸

Basis for Review Results

These financial statements are the responsibility of the Company's management. We conducted our review in accordance with the standards of the PCAOB. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

[Signature]

[City and State or Country]

[Date]

.40 The accountant may use and make reference to another accountant's review report on the interim financial information of a significant component of a reporting entity. This reference indicates a division of responsibility for performing the review.²⁹³⁰ The following is an example of report including such a reference:

Report of Independent Registered Public Accounting Firm

To the shareholders and the board of directors of ABC Company

Results of Review of Interim [*Financial Information or Statements*]

We have reviewed the accompanying [*describe the interim financial information or statements reviewed*] of ABC Company (the "Company") and consolidated subsidiaries as of September 30,

²⁸ If the auditor's report on the preceding year-end financial statements was other than unqualified, referred to other auditors, or included an explanatory paragraph because of a going-concern matter or an inconsistency in the application of accounting principles, the second paragraph of the illustrative report in paragraph .39 should be appropriately modified.

²⁹ See AS 1205.

³⁰ [Footnote deleted]

20X1, and for the three-month and nine-month periods then ended, and the related notes [*and schedules*] (collectively referred to as the "interim financial information or statements"). Based on our review and the report of other accountants, we are not aware of any material modifications that should be made to the accompanying interim financial information (statements) for it (them) to be in conformity with accounting principles generally accepted in the United States of America.

We were furnished with the report of other accountants on their review of the interim financial information of DEF subsidiary, whose total assets as of September 30, 20X1, and whose revenues for the three-month and nine-month periods then ended, constituted 15 percent, 20 percent, and 22 percent, respectively, of the related consolidated totals.

Basis for Review Results

This (These) interim financial information (statements) is (are) the responsibility of the Company's management. We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"). A review of interim financial information (statements) consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

[*Signature*]

[*City and State or Country*]

[*Date*]

Modification of the Accountant's Review Report

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

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

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

Based on information furnished to us by management, we believe that the company has excluded from property and debt in the accompanying balance sheet certain lease obligations that we believe should be capitalized to conform with accounting principles generally accepted in the United States of America. This information indicates that if these lease obligations were capitalized at September 30, 20X1, property would be increased by \$_____, long-term debt by \$_____, and net income and earnings per share would be increased (decreased) by \$_____, \$_____, \$_____, and \$_____, respectively, for the three-month and nine-month periods then ended.

.43 *Inadequate disclosure.* The information necessary for adequate disclosure is influenced by the form and context in which the interim financial information is presented. For example, the disclosures considered necessary for interim financial information presented in accordance with the minimum disclosure requirements of APB Opinion No. 28, paragraph 30, which is applicable to summarized financial statements of public companies, are considerably less extensive than those necessary for annual financial statements that present financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.³¹ If information that the accountant believes is necessary for adequate disclosure in conformity with generally accepted accounting principles³² is not included in the interim financial information, the accountant should modify the report and, if practicable, include the necessary information in the report. The following is an example of such a modification of the accountant's report:

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

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

³¹ APB Opinion No. 28, paragraph 32, states that "there is a presumption that users of summarized interim financial data will have read the latest published annual report, including the financial disclosures required by generally accepted accounting principles and management's commentary concerning the annual financial results, and that the summarized interim data will be viewed in that context." See footnote 18 of this section for additional disclosure requirements.

³² Such disclosures include those set forth in AS 2415.10. If the accountant determines that disclosure about the company's possible inability to continue as a going concern is inadequate, a departure from generally accepted accounting principles exists.

.44 *Going-concern paragraph was included in the prior year's audit report; conditions giving rise to the paragraph continue to exist.* If (a) the auditor's report for the prior year end contained an explanatory paragraph indicating the existence of substantial doubt about the entity's ability to continue as a going concern, (b) the conditions that raised such doubt continued to exist as of the interim reporting date covered by the review, and (c) there is adequate and appropriate disclosure about these conditions in the interim financial information, the accountant is not required to modify his or her report. However, the accountant may add an explanatory paragraph to the review report, including an appropriate title (immediately following the paragraph describing the results of the review), emphasizing the matter disclosed in the audited financial statements and the interim financial information. The following is an example of such a paragraph.

[Appropriate Title]

Note 4 of the Company's audited financial statements as of December 31, 20X1, and for the year then ended discloses that the Company was unable to renew its line of credit or obtain alternative financing at December 31, 20X1. Our auditor's report on those financial statements includes an explanatory paragraph referring to the matters in Note 4 of those financial statements and indicating that these matters raised substantial doubt about the Company's ability to continue as a going concern. As indicated in Note 3 of the Company's unaudited interim financial statements as of March 31, 20X2, and for the three months then ended, the Company was still unable to renew its line of credit or obtain alternative financing as of March 31, 20X2. The accompanying interim financial information does not include any adjustments that might result from the outcome of this uncertainty.

.45 *Going-concern paragraph was not included in the prior year's audit report; conditions or events exist as of the interim reporting date covered by the review that might be indicative of the entity's possible inability to continue as a going concern.* If (a) conditions or events exist as of the interim reporting date covered by the review that might be indicative of the entity's possible inability to continue as a going concern, and (b) there is adequate and appropriate disclosure about these conditions or events in the interim financial information, the accountant is not required to modify his or her report. However, the accountant may add an explanatory paragraph to the review report, including an appropriate title (immediately following the paragraph describing the results of the review), emphasizing the matter disclosed in the interim financial information. The following is an example of such a paragraph.

[Appropriate Title]

As indicated in Note 3, certain conditions indicate that the Company may be unable to continue as a going concern. The accompanying interim financial information does not include any adjustments that might result from the outcome of this uncertainty.

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

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

accountant should consider the guidance in AS 2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*.

Client's Representation Concerning a Review of Interim Financial Information

.47 If a client represents in a document filed with a regulatory agency (see paragraph .03 of this section for the SEC requirement) or issued to stockholders or third parties, that the accountant has reviewed the interim financial information included in the document, the accountant should advise the entity that his or her review report must be included in the document. If the client will not agree to include the accountant's review report, the accountant should perform the following procedures.

- Request that the accountant's name be neither associated with the interim financial information nor referred to in the document.
- If the client does not comply with the request, advise the client that the accountant will not consent either to the use of his or her name or to reference to him or her.
- When appropriate, recommend that the client consult with its legal counsel about the application of relevant laws and regulations to the circumstances.
- Consider what other actions might be appropriate.³³

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

Interim Financial Information Accompanying Audited Financial Statements

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

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

- a. The interim financial information included in a note to the financial statements, including information that has been reviewed in accordance with this section, is not

³³ In considering what actions, if any, may be appropriate in these circumstances, the accountant should consider consulting his or her legal counsel.

appropriately marked as unaudited. (In these circumstances the auditor should disclaim an opinion on the interim financial information.)

- b. The interim financial information accompanying audited financial statements does not appear to be presented in conformity with generally accepted accounting principles (see paragraphs .42 and .43 of this section). However, the auditor need not modify his or her report on the audited financial statements if his or her separate review report, which refers to those circumstances, is presented with the information.
- c. The selected quarterly financial data required by item 302(a) of Regulation S-K is omitted. The auditor should add an explanatory paragraph, including an appropriate title, to the report, if the selected quarterly financial data required by item 302(a) is omitted. The following is an example of such a paragraph.

[Appropriate Title]

The company has not presented the selected quarterly financial data specified in item 302(a) of Regulation S-K that the Securities and Exchange Commission requires as supplementary information to the basic financial statements.

- d. The selected quarterly financial data required by item 302(a) of Regulation S-K has not been reviewed. The auditor should add an explanatory paragraph, including an appropriate title, to the report, if the selected quarterly financial data required by item 302(a) has not been reviewed. The following is an example of such a paragraph.

[Appropriate Title]

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

Documentation

.51 The accountant should prepare documentation in connection with a review of interim financial information, the form and content of which should be designed to meet the circumstances of the particular engagement. Documentation is the principal record of the review procedures performed and the conclusions reached by the accountant in performing the review.³⁴ Examples of documentation are review programs, analyses, memoranda, and letters of representation. Documentation may be in paper or electronic form, or other media. The quantity, type, and content of the documentation are matters of the accountant's professional judgment.

³⁴ However, an accountant would not be precluded from supporting his or her conclusions by other means in addition to the documentation.

.52 Because of the different circumstances in individual engagements, it is not possible to specify the form or content of the documentation the accountant should prepare. However, the documentation should include any findings or issues that in the accountant's judgment are significant, for example, the results of review procedures that indicate that the interim financial information could be materially misstated, including actions taken to address such findings, and the basis for the final conclusions reached. In addition, the documentation should (a) enable members of the engagement team with supervision and review responsibilities to understand the nature, timing, extent, and results of the review procedures performed; (b) identify the engagement team member(s) who performed and reviewed the work; and (c) identify the evidence the accountant obtained in support of the conclusion that the interim financial information being reviewed agreed or reconciled with the accounting records (see paragraph .18(d) of this section).

Effective Date

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

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

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

- Comparing current interim financial information with anticipated results, such as budgets or forecasts (for example, comparing tax balances and the relationship between the provision for income taxes and pretax income in the current interim financial information with corresponding information in (a) budgets, using expected rates, and (b) financial information for prior periods).³⁵
- Comparing current interim financial information with relevant nonfinancial information.
- Comparing ratios and indicators for the current interim period with expectations based on prior periods, for example, performing gross profit analysis by product line and operating segment using elements of the current interim financial information and comparing the results with corresponding information for prior periods. Examples of key

³⁵ The accountant should exercise caution when comparing and evaluating current interim financial information with budgets, forecasts, or other anticipated results because of the inherent lack of precision in estimating the future and susceptibility of such information to manipulation and misstatement by management to reflect desired interim results.

ratios and indicators are the current ratio, receivable turnover or days' sales outstanding, inventory turnover, depreciation to average fixed assets, debt to equity, gross profit percentage, net income percentage, and plant operating rates.

- Comparing ratios and indicators for the current interim period with those of entities in the same industry.
- Comparing relationships among elements in the current interim financial information with corresponding relationships in the interim financial information of prior periods, for example, expense by type as a percentage of sales, assets by type as a percentage of total assets, and percentage of change in sales to percentage of change in receivables.
- Comparing disaggregated data. The following are examples of how data may be disaggregated.
 - By period, for example, financial statement items disaggregated into quarterly, monthly, or weekly amounts.
 - By product line or operating segment.
 - By location, for example, subsidiary, division, or branch.

A2. Analytical procedures may include such statistical techniques as trend analysis or regression analysis and may be performed manually or with the use of computer-assisted techniques.

Appendix B - Unusual or Complex Situations to Be Considered by the Accountant When Conducting a Review of Interim Financial Information³⁶

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B1. The following are examples of situations about which the accountant would ordinarily inquire of management:

- Business combinations
- New or complex revenue recognition methods
- Impairment of assets
- Disposal of a segment of a business
- Use of derivative instruments and hedging activities

³⁶ [Footnote deleted].

- 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
- The occurrence of significant unusual transactions
- Changes in litigation or contingencies
- Changes in major contracts with customers or suppliers
- Application of new accounting principles
- Changes in accounting principles or the methods of applying them
- Trends and developments affecting accounting estimates, 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

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

.56

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

C2. The introductory paragraph of the letters should specify the financial statements and periods covered by the accountant's report, for example, "condensed balance sheets of XYZ Company as of June 30, 20X1 and 20X2, and the related condensed statements of income and retained earnings and cash flows for the three-month and nine-month periods then ended." The written representations to be obtained should be based on the circumstances of the engagement and the nature and basis of presentation of the financial statements being reviewed. Appendix B, "Additional Illustrative Representations," of AS 2805, *Management Representations*, presents examples of such representations.

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

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

C5. Certain terms are used in the illustrative letters that are described elsewhere in authoritative literature. Examples are *fraud*, in AS 2401, *Consideration of Fraud in a Financial Statement Audit*, and *related parties*, in AS 2410, *Related Parties*. To avoid misunderstanding concerning the meaning of such terms, the accountant may wish to furnish those definitions to management or request that the definitions be included in the written representations.

C6. The illustrative letters assume that management and the accountant have reached an understanding on the limits of materiality for purposes of the written representations. However, it should be noted that a materiality limit would not apply for certain representations, as explained in AS 2805.08.

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

[This representation letter is to be used in conjunction with the representation letter for the audit of the financial statements of the prior year. Management confirms the representations made in the representation letter for the audit of the financial statements of the prior year end as they apply to the

interim financial information, and makes additional representations that may be needed for the interim financial information.]

[Date]

To [Independent Accountant]:

We are providing this letter in connection with your review of the [identification of interim financial information (statements)] of [name of entity] as of [dates] and for the [periods] for the purpose of determining whether any material modifications should be made to the [consolidated] interim financial information (statements) for it (them) to conform with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the [consolidated] interim financial information (statements) in conformity with generally accepted accounting principles.

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

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

1. The interim financial information (statements) referred to above has (have) been prepared and presented in conformity with generally accepted accounting principles applicable to interim financial information.
2. We have made available to you:
 - a. All financial records and related data, including the names of all related parties and all relationships and transactions with related parties.
 - b. All minutes of the meetings of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared. All significant board and committee actions are included in the summaries.
3. We believe that the effects of any uncorrected financial statement misstatements aggregated by you during the current review engagement and pertaining to the interim period(s) in the current year, as summarized in the accompanying schedule, are immaterial, both individually and in the aggregate, to the interim financial information (statements) taken as a whole.³⁷

³⁷ If a summary of uncorrected misstatements is unnecessary because no uncorrected misstatements were identified, this representation should be eliminated.

4. There are no significant deficiencies, including material weaknesses, in the design or operation of internal controls which could adversely affect the company's ability to record, process, summarize, and report interim financial data.
5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
6. We have no knowledge of any fraud or suspected fraud affecting the company involving:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others where the fraud could have a material effect on the interim financial information.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the company in communications from employees, former employees, analysts, regulators, short sellers, or others.
8. We have reviewed our representation letter to you dated [*date of representation letter relating to most recent audit*] with respect to the audited financial statements for the year ended [*prior year-end date*]. We believe that representations A, B, and C within that representation letter do not apply to the interim financial information (statements) referred to above. We now confirm those representations 1 through X, as they apply to the interim financial information (statements) referred to above, and incorporate them herein, with the following changes:

[Indicate any changes.]

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

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

[Name of chief executive officer and title]

[Name of chief financial officer and title]

[Name of chief accounting officer and title]

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

[This representation letter is similar in detail to the management-representation letter used for the audit of the financial statements of the prior year and thus need not refer to the written management representations received in the most recent audit.]

[Date]

To [Independent Accountant]:

We are providing this letter in connection with your review of the [*identification of interim financial information (statements)*] of [*name of entity*] as of [*dates*] and for the [*periods*] for the purpose of determining whether any material modifications should be made to the [*consolidated*] interim financial information (statements) for it (them) to conform with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the [*consolidated*] interim financial information (statements) in conformity with generally accepted accounting principles.

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

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

1. The interim financial information (statements) referred to above has (have) been prepared and presented in conformity with generally accepted accounting principles applicable to interim financial information (statements).
2. We have made available to you—
 - a. All financial records and related data, including the names of all related parties and all relationships and transactions with related parties.
 - b. All minutes of the meetings of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared. All significant board and committee actions are included in the summaries.
3. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the interim financial information.
5. We believe that the effects of any uncorrected financial statement misstatements aggregated by you during the current review engagement and pertaining to the interim period(s) in the current year, as summarized in the accompanying schedule, are

immaterial, both individually and in the aggregate, to the interim financial information (statements) taken as a whole.³⁸

6. There are no significant deficiencies, including material weaknesses, in the design or operation of internal controls which could adversely affect the company's ability to record, process, summarize, and report interim financial data.
7. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
8. We have no knowledge of any fraud or suspected fraud affecting the company involving:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others where the fraud could have a material effect on the interim financial information.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the company received in communications from employees, former employees, analysts, regulators, short sellers, or others.
10. The company has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
11. The following have been properly recorded or disclosed in the interim financial information (statements):
 - a. Related-party transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which the company is contingently liable.
 - c. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with the AICPA's Statement of Position 94-6, *Disclosure of Certain Significant Risks and Uncertainties*. [*Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.*]
12. There are no:

³⁸ If a summary of uncorrected misstatements is unnecessary because no uncorrected misstatements were identified, this representation should be eliminated.

- a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the interim financial information (statements) or as a basis for recording a loss contingency.
 - b. Unasserted claims or assessments that are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
 - d. Side agreements or other arrangements (either written or oral) that have not been disclosed to you.
13. The company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets; nor has any asset been pledged as collateral.
14. The company has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
15. *[Add additional representations that are unique to the entity's business or industry. See paragraph .21 of this section and paragraph .17 of AS 2805, Management Representations.]*
16. *[Add any representations related to new accounting or auditing standards that are being implemented for the first time.]*

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

[Name of chief executive officer and title]

[Name of chief financial officer and title]

[Name of chief accounting officer and title]