7 October 2003

Technical Director
International Auditing and Assurance Standards Board
14th Floor
545 Fifth Avenue
New York
New York 10017
USA

Dear Sir

Proposed International Standard on Auditing “Review of Interim Financial Information Performed by the Auditor of the Entity”

With a membership in excess of 37,000, the London Society of Chartered Accountants (LSCA) is the largest of the regional bodies which form the Institute of Chartered Accountants in England & Wales. London members, like those of the Institute as a whole, work in practice or in business. The London Society operates a wide range of specialist committees including Technical (accounting and auditing), and it is that Committee which has recently considered the text of the proposed International Standard on Auditing “Review of Interim Financial Information Performed by the Auditor of the Entity” and wishes to make the following comments and observations to the International Auditing and Assurance Standards Board, including responses on specific questions asked in the Exposure Draft. We apologise for the lateness of our response, but trust that our comments can still be taken into consideration at this stage.

General comments
The Committee believes that there is a significant benefit in the IAASB issuing an International Auditing Standard (ISA) on the review of interim information performed by an entity’s auditors and thinks that this will help promote a common global understanding of these engagements.

In particular because of the way in which ISA 910 “Engagements to Review Financial Statements” is structured around reviews completed independently of an annual audit regime, the Committee considers that there is a need for a Standard which clearly sets out the procedures applicable to interim reviews that are performed by an entity’s auditor. The Committee considers that this proposed ISA on interim reviews could fill this ‘gap’ in auditing guidance that currently exists.

Comments on specific issues

Scope of the proposed ISA

The Exposure Draft proposes that the new ISA should apply to engagements to review interim financial information only when:
(a) The review is performed by the entity’s auditor;

The Committee agrees that the proposed ISA should only apply when the review is performed by the entity’s auditors. (Where this is not the case additional review procedures are likely to be necessary and these are not addressed in this proposed Standard, since ISA 910 would come into effect).

(b) The interim financial information is prepared in accordance with an identified financial reporting framework;

The Committee agrees that the interim financial information should be prepared in accordance with an identified financial reporting framework.

(c) The entity is required or permitted under legislation, regulation, or equivalent authority to issue such interim financial information;

The Committee does not support the proposal to restrict the applicability of this ISA to engagements in which the entity is required or permitted under legislation, regulation, or other equivalent authority to issue such financial information.

In the Committee’s view, the distinguishing feature of the type of review proposed in the draft ISA is that the review will be conducted by the entity’s auditor and, therefore, conducted from a basis of already having cumulative knowledge through the ongoing relationship. In respect in particular of “permission” to issue interim financial information, the Committee believes that it is highly unlikely, in practice, that any legislation, regulation or equivalent authority would explicitly prohibit the issuance of interim financial information. Therefore, the Committee thinks that paragraph (c) of the scope of the ISA is unnecessary and also could have undesirable consequences, and should be removed.

If the engagement circumstances do not meet the criteria in (c) above for the application of the new ISA, the interim review would, by default, be conducted in accordance with ISA 910. The only difference arising from these circumstances might be the lack of an explicit regulatory framework, but, under the proposals, that would be enough to preclude the auditor from applying the proposed new ISA. The Committee considers that the guidance on conducting the review, contained in the proposed new ISA, is more relevant than ISA 910 with regard to the nature and objective of such an engagement, because it would be starting from knowledge already obtained through audit work. Under the current proposals, however, the auditors would be prohibited from applying that ‘more relevant’ guidance. Indeed, the auditors could perform quite different procedures to those IAASB has deemed appropriate for reviews of interim financial information, as reflected in the proposed new ISA. In light of the above, the Committee considers that the inclusion of this scoping restriction needs to be reconsidered by the IAASB.

And finally,

(d) The audited annual financial statements of the entity are required to be filed with a regulatory authority, or equivalent, and are publicly available.

The Committee believes that it is irrelevant whether the financial statements are filed or not. The key principle is that they are publicly available and therefore we suggest shortening paragraph (d) above to be “The audited annual financial statements of the entity are publicly available.”

Conclusion expressed in the written report
The Committee supports the draft’s proposal that the wording of the conclusion should differ depending on whether condensed or complete financial statements are being prepared by the entity.

When condensed information is presented the Committee agrees that a statement about “whether the auditor is aware of any material modification that should be made to the interim financial information for it to be in accordance with the identified financial reporting framework” is appropriate.

However, for ‘complete’ sets of interims, the Committee considers that the phrase “present fairly, in all material respects” should be used and the use of any reference to “true and fair” avoided. The reason for this being that “true and fair” is a term universally linked with audit opinions. It is thus possible that the user of interim financial information could misunderstand the extent of work performed if reference is made to the phrase “true and fair” in the interim review report.

In addition the Committee believes that the use of “presents fairly” opinions should be strictly limited to complete sets of financial information which fully comply with all of the requirements and disclosures of a financial reporting framework that has been developed in pursuit of the principles of transparency and fair disclosure (for example, IFRSs). This would serve to strengthen the understanding of what a “fairly presents” opinion is intended to convey.

Other comments

1. Objective of an engagement to review interim financial information (Paragraph 9)

The Committee appreciates that an interim review will primarily involve the application of analytical procedures; however, paragraph 9 almost appears to restrict interim review work to analytical procedures and enquiries. To recognise the fact that on certain occasions other procedures may be adopted, we feel that paragraph 9 should be amended to read “..on the basis of analytical or other procedures applied and enquiries made”.

2. Agreeing the terms of engagement (Paragraph 12)

With reference to the last bullet point in paragraph 12, the Committee believes that the option allowing management to simply “indicate” where the auditor’s report can be obtained should be deleted. Given the limited nature of the auditor’s work and the fact that users may be more familiar with the auditor’s involvement with the audited annual financial statements, it is important that the auditor’s report accompany the interim financial information whenever management states that the interim financial information has been reviewed by an independent public accountant. The risk of users being confused about the auditor’s association with the interim financial information or misinterpreting the nature of the auditor’s limited review is too high to do otherwise.

3. Planning and conducting the review of interim financial information (Paragraph 18)

Certain members of the Committee considered that a new auditor would not ordinarily review the documentation of the predecessor auditor for the preceding annual audit and prior interim periods. Hence, it was considered more appropriate that the word “ordinarily” should be replaced with “if felt necessary”.

4. Procedures for a review of interim financial information (Paragraph 21)

The Committee considers that it would be useful to add to the list of inquiries of management whether there has been any litigation, or claims, that could have a material effect on the
interim financial information. The Committee thinks that this should be stated specifically in addition to inquiries regarding actual or possible non-compliance with laws and regulations, and would be more consistent with paragraph 24 of the proposed ISA regarding auditors’ awareness of information of any litigation or claim.

5. **Evidence that the interim financial information agrees or reconciles with the accounting records (Paragraph 25)**

Paragraph 25 of the proposed ISA states that the auditor “considers inquiring of management as to the process by which the financial information has been prepared…”. The Committee suggests deleting the word “considers”, as we believe an auditor should always obtain that understanding.

6. **Requirement to modify review report by adding a paragraph to highlight a material matter regarding a going concern problem (Paragraph 49)**

Paragraph 49 of the proposed ISA requires the auditor to modify the review report by adding an emphasis of matter paragraph to highlight a material matter relating to a problem which impacts on going concern. While such guidance is appropriate when the entity has adequately disclosed the going concern problem in accordance with the approach set out in ISA 570 “Going Concern”, should the financial information not adequately disclose a going concern problem that exists then the auditor should express a qualified or adverse opinion as appropriate. The Committee believes that a link between the guidance in paragraph 50 and 46 would be useful in making this clear.

On behalf of the Committee, I trust you find the above comments helpful and I would be happy to discuss them should you wish to do so.

If there are any matters arising from this letter you would like to discuss, please do not hesitate to contact me on 020 7213 1285.

Yours faithfully

Margaret Cassidy
Chairman, LSCA Technical Committee