



**ASSURANCE HOT TOPIC: AASB RELEASES NEW
SECTION 7060 *AUDITOR REVIEW OF INTERIM
FINANCIAL STATEMENTS***

September 2014

Background

The release of Section 7060 is part of the Auditing and Assurance Standards Board's (AASB) project to revise the "7000 series of standards" that focus primarily on the auditor's role and responsibilities when dealing with securities regulations and other capital markets matters. Section 7060 replaces extant Section 7050 of the same name. The AASB approved Section 7060 at its meeting in June 2014.

Scope

Section 7060 deals with the interim review of an entity's interim financial statements by its auditor (an "interim review"). The purpose of an engagement under this Section is to assist the audit committee in discharging its responsibilities with respect to interim financial statements that are to be issued under the provisions of securities legislation.

Key Matters

- **Materiality**
Section 7060 requires the auditor to consider materiality with reference to the applicable financial reporting framework as it relates to the interim financial statements to assist in determining the nature and extent of the procedures to be performed, and evaluating the effect of misstatements.
- **Risk-informed Approach**
Section 7060 uses a risk-informed approach. A risk assessment process similar to that in an audit engagement is not necessary for the purposes of an interim review engagement. However, Section 7060 requires the auditor to:
 - a) Have a sufficient understanding of the entity and its environment, including internal control as it relates to the preparation of both annual and interim financial statements, to be able to provide a basis to identify the risks that are likely to result in the need for material modification to the interim financial statements; and
 - b) Design and perform inquiries and analytical procedures to focus on addressing the identified risks that are likely to result in the need for material modification to the interim financial statements.
- **Respond to Misrepresentation when Reviewing the Interim Management Discussion and Analysis (MD&A)**
Section 7060 requires the auditor to respond when the auditor becomes aware of a misrepresentation when reading the interim MD&A. The term "misrepresentation" refers to an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made. The term "misrepresentation" is consistent with terminology used by Canadian securities legislation.
- **Restriction on Use and Disclaimer of Responsibility in the Auditor's Interim Review Report**
Section 7060 requires the auditor's interim review report to include a restriction on use, but not a disclaimer of responsibility. Extant Standard 7050 required the auditor's interim review report to include a restriction on use **AND** a disclaimer of responsibility. The restriction on use statement alone is adequate in clarifying the purpose of the interim review and reducing the likelihood of unwarranted reliance.

This communication contains a general overview of the topic and is current as of September 30, 2014. The application of the principles addressed will depend upon the particular facts and circumstances of each individual case. Accordingly, this publication is not a substitute for professional advice and we recommend that any decisions you take about the application or not of any of the information presented be made in consultation with a qualified professional who can address any variance that may be required to reflect your circumstances. Please contact your local MNP representative for customized assistance with the application of this material. MNP LLP accepts no responsibility or liability for any loss related to any person's use or reliance upon this material. © MNP LLP 2014. All rights reserved.

- **Format of the Auditor's Interim Review Report**

Section 7060 allows the interim review report to be issued in either oral or written form to communicate the nature and extent of the auditor's involvement with the entity's interim financial statements and the results of the interim review. Oral communication of the interim review report to the audit committee is considered to be sufficient unless issuing a modified conclusion, or when the auditor's interim review is referred to in a public document.

- **Procedures Relating to Going Concern**

Section 7060 requires the auditor to make inquiries with management about going concern, consider management's response in the context of the interim review, evaluate whether use of the going concern assumption is appropriate, and evaluate the adequacy of going concern presentation & disclosure.

Effective Date

This Section is effective for reviews of interim financial statements for interim periods of fiscal years beginning on or after December 15, 2014.

Resources

Click [here](#) for AASB's project page for Section 7060.

The staff of the AASB prepared a [Basis for Conclusions document](#), which relates to, but does not form part of, Section 7060. This Basis for Conclusions provides a brief summary of the AASB's objectives in developing Section 7060, the public exposure and approval steps for this project and how the AASB dealt with significant matters arising from comments received in response to its Exposure Draft.

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