



A CAQ COVID-19 RESOURCE

Interim Financial Statements Included in Form 10-Q:

Auditor Responsibilities and COVID-19 Considerations for Investors and Audit Committees

Published April 2020

CAQ

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The COVID-19 pandemic and the related market conditions create many new uncertainties for public companies, auditors, and audit committees. As SEC Chair Jay Clayton recently recognized, the continuing operation of the US capital markets is an essential component of the US's response to, and recovery from, COVID-19. This resource is intended to provide a high-level overview of the auditor's responsibilities related to the interim financial statements included in Form 10-Q.

This resource is intended as general information and should not be relied upon as being authoritative or all-inclusive, or a substitute for PCAOB and SEC rules, standards, guidance, or other resources.

TECHNICAL REQUIREMENTS

SEC Regulation S-X specifies that the interim financial statements included in Form 10-Q must be reviewed by an auditor in accordance with PCAOB standards. PCAOB Auditing Standard 4105, *Reviews of Interim Financial Information* establishes standards and provides guidance on the nature, timing, and extent of the procedures to be performed by an independent auditor when conducting a review of *interim financial information*. *The general standards related to independence, training and proficiency and due professional care also apply to auditors conducting interim reviews.*

Auditor objectives when performing reviews of quarterly financial statements

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. The objective of a review is to provide the auditor 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 (GAAP). 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 GAAP.

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 certain other procedures ordinarily performed in an audit. A review may bring to the auditor's attention significant matters affecting the interim financial information, but it does not provide assurance that the auditor will become aware of all significant matters that would be identified in an audit.

Auditor involvement in disclosures about internal controls over financial reporting (ICFR) during a quarterly review

As part of the quarterly review process, the auditor is required to perform limited procedures 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 ICFR in order for the certifications to be accurate and to comply with the requirements of Section 302 of the Sarbanes-Oxley Act of 2002. These procedures increase the likelihood that investors will receive timely information about material changes in ICFR.

COVID – 19 CONSIDERATIONS

Importance of auditor touchpoints during quarterly reviews

Quarterly reviews facilitate early identification and resolution of material accounting and reporting issues because auditors get involved earlier and periodically throughout the year. Many auditors may elect to perform audit procedures on significant risks or material transactions during the quarter, rather than waiting until year-end to complete all audit procedures. These touchpoints

are even more important in a volatile economic environment, as there may be more material accounting and reporting issues that need to be identified and resolved before year end. These issues could include triggering events for asset impairments, complexities in calculating certain estimates, and impacts of pressures on a company's liquidity. The ability of the auditor to perform such procedures could be impacted by data availability, management's readiness, and operational disruptions.

Potential implications on ICFR

As management prepares and executes a virtual financial close process, perhaps for the first time, there could be related implications on the internal controls performed specifically in conjunction with the preparation, review and filing of their Form 10-Q. There is a risk that moving to a virtual environment in response to COVID-19 could result in certain controls (e.g., financial closing and reporting controls) being overridden or performed less frequently, or management could be designing and implementing new controls in response to new risks. In addition, in instances where relevant controls fail and there are no compensating controls in place, there may be fewer opportunities to timely identify or remediate control deficiencies.

Auditor involvement with earnings releases

In contrast to the specific technical requirements surrounding management and auditor responsibilities related to interim financial information, earnings releases are elective and there are no prescriptive requirements for the type or level of financial or internal control information to be disclosed, as long as the information does not contain material misstatements or omissions. As a result, the scope, timing and content of such disclosures in earnings releases vary significantly in practice.

While auditors may read a company's earnings release, auditors are not required to do so under professional standards. Any auditor involvement in the earnings release process is generally incidental to their required quarterly review of the interim financial statements to be included in Form 10-Q. While certain information included in earnings releases may be derived from draft interim financial

statements expected to be included in the Form 10-Q, the auditor's review of the interim financial statements often is not complete at the date of the earnings release. The timing between the earnings release and the filing of Form 10-Q could be longer than usual, given the optional filing deadline relief the SEC has provided for issuers as a result of the pandemic.¹ As a result, the auditor's ability to read earnings releases in the context of information provided in the 10-Q may be impeded. •

¹ Please see <https://www.sec.gov/sec-coronavirus-covid-19-response>.