



Financial Reporting Council

# **Feedback Statement and Impact Assessment**

**International Standard  
on Review Engagements  
(UK) 2410 (ISRE (UK) 2410)**

May 2021

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# Introduction

1. The Financial Reporting Council (FRC) is committed to acting as a proportionate and principles-based regulator and balances the need to minimise the impact of regulatory requirements on business, while working to support the delivery of high-quality audit and assurance work, to maintain investor and wider stakeholder confidence in audit and assurance.
2. ISRE (UK) 2410 is based on the corresponding international standard issued by the International Audit and Assurance Standards Board (IAASB) and adopted in the UK in July 2007. Where necessary, the international standard has been augmented with additional requirements to address specific UK legal and regulatory requirements; and additional guidance that is appropriate in the UK national legislative, cultural, and business context.
3. ISRE (UK) 2410 sets the requirements for an auditor undertaking an engagement to review the interim financial statements of an audit client. There have been no revisions to the standard, either at the international or UK level, since it was originally issued.
4. Interim financial statements are produced by entities listed on the main London Stock Exchange and contain, most frequently, condensed financial statements, showing the key figures relevant to the entity. It is not a requirement for this information to be reviewed but, if it is, the review report must be published<sup>1</sup>. The condensed financial statements contained within the companies' interim reports, when reviewed, are subject to a limited assurance engagement in line with ISRE (UK) 2410.
5. Our initial view was that revising the standard presented an opportunity to engage with stakeholders to understand if the current limited assurance review is fit for purpose, or if a different type of report, or process, might be more useful to users of interim financial statements. However, Sir Donald Brydon's review of the quality and effectiveness of audit has subsequently been published, as well as the government's consultation on *Restoring trust in audit and corporate governance*. Implementation of Brydon's recommendations by the government may have implications for interim financial information. As a result, we believe it is appropriate to postpone a full-scale revision of the standard, pending the outcome of the consultation.
6. The previous version of ISRE (UK) 2410, specifically paragraphs 27 to 29, contained requirements for how going concern should be addressed in the context of work on interim financial statements but these did not reflect recent revisions to the ISAs (UK), the UK Corporate Governance Code or the expectations on UK directors and practitioners in this area.
7. Recent revisions to ISA (UK) 570 Going Concern have increased both the level of work and the reporting requirements for auditors. Whilst a review of interim financial information conducted in line with ISRE (UK) 2410 is a limited assurance engagement and not an audit, we believe there is significant value in aligning requirements on going concern across the audit of financial statements and the review of interim financial statements, whilst still acknowledging the differing levels of assurance these engagements offer.
8. We have limited revisions to ISRE (UK) 2410 to those which relate to going concern, though we have also updated references, ensured style and format are consistent with modern auditing and assurance standards and revised sections which detail the applicable financial reporting framework requirements for the preparation of interim financial statements.

<sup>1</sup> Disclosure and Transparency Rulebook Rule 4.2.9

## Summary of Key Revisions, Consultation Feedback and FRC Responses

9. In November 2020 the FRC issued a public consultation on proposed revisions ISRE (UK) 2410. The key revisions we proposed are set out below, followed by the results of our consultation and the key changes made to the exposure draft in response.

Key Revision	ISRE (UK) 2410	Explanation	Consultation feedback and Response
Clarification of requirements for directors to assess going concern when preparing interim financial information	Appendix 8 Footnote 5	We have clarified this with the addition of Appendix 8, which clearly sets out the requirements for companies that are listed in the UK. The two standards most commonly used in the UK, IAS 34 and FRS 104, both explicitly require an assessment of the entities ability to continue as a going concern.	Some respondents suggested that the material included in ISRE (UK) 2410, which sets out Directors' responsibilities in respect of interim financial statements was effectively imposing new requirements through our assurance standard. In fact, the text simply sets out relevant rules and we have therefore added further clarification in Appendix 8:  <i>This appendix contains a summary of the DTR sourcebook and AIM rules requirements relating to interim financial information. Requirements for directors are drawn from the relevant financial reporting frameworks and are only included in this ISRE (UK) for reference purposes.</i>
Linkage of the work undertaken by the auditor at the interim to the risk assessment conducted as part of the audit of the last annual financial statements	Paragraphs 13-1 to 13-3	Paragraph 13 requires the auditor who has obtained an understanding of the entity and its environment as part of the most recent audit to update that understanding when performing an interim review.  We added paragraphs 13-1 to 13-3 which emphasise the requirement to consider the applicable financial reporting framework and explicitly require that the auditors consider factors relating to going concern.  When auditing the last annual accounts, ISA (UK) 570 <sup>2</sup> , through linkage to ISA (UK) 315, lists specific factors relating to going concern that the auditor should consider as part of their risk assessment procedures.	Practitioners were concerned that some of the language used in respect of going concern was too closely aligned to those in ISA (UK) 570, and not appropriate for a limited assurance review. We have therefore amended the language in paragraphs 13-2 and 13-3 to recognise that ISRE (UK) 2410 is not setting 'auditing' requirements (changes highlighted):  <i>13-2. In updating their understanding of the entity and its environment in accordance with paragraph 13 and 13-1 of this ISRE (UK), the auditor shall consider, based on the review work performed and the specific enquires made of management, if there are events and conditions, that individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.</i>

<sup>2</sup> ISA (UK) 570 (Revised September 2019) *Going Concern*, Paragraph 10-2

In paragraph 13-3 we have linked through to these factors and explicitly require the auditor to update them when performing a review of interim financial information in accordance with ISRE (UK) 2410.

Strengthening of the review procedures required to be performed by the auditor on management's going concern assessment

Paragraphs 27-1 to 27-3

We included paragraph 27-2, which is an explicit requirement for auditors to perform review procedures on management's assessment of the entity's ability to continue as a going concern where there have been changes made to the assessment performed for the purposes of preparing the last annual review, or where management have made a new assessment for the purpose of preparing the interim financial information.

Practitioners were also concerned that the revised procedures set out in paragraphs 27-1 to 27-3 had the character of 'audit' rather than 'review' procedures. We held an additional outreach session to gain a clearer understanding of these concerns, and have subsequently simplified and shortened the text of the standard. We have also made specific editorial changes to paragraph 27-2 (now 27-1) in order to clarify expectations on practitioners without weakening the purpose of the revisions:

27-1. Where management have changed their assessment of the entity's ability to continue as a going concern **since the last annual financial statements**, ~~or have developed a new going concern assessment as described in paragraph 27-1~~ the auditor shall perform review procedures on management's assessment of the entity's ability to continue as a going concern to determine that:

- **The method selected, and any changes made to the methods used for the entity's last annual financial statements, are reasonable.**
- ~~Changes from methods used for the entity's last annual financial statements or the entity's previous interim financial statements, are appropriate.~~
- Any calculations are **accurately** applied in accordance with management's stated method ~~and are mathematically accurate.~~
- Any calculations are applied in accordance with managements stated method.
- The underlying data used to make any assessment of the entity's ability to continue as a going concern is **reliable consistent with the auditors understanding of the entity**; and

- *The assumptions on which management's assessment is made are reasonable based on the auditor's understanding of the entity.*

Strengthening of reporting requirements in relation to going concern	Paragraph 43(g)	We included paragraph 43 (g) which is an explicit requirement to state in the review report that nothing has come to the auditor's attention that causes the auditor to believe it is not appropriate for the entity to adopt the going concern basis of preparation for the interim financial statements.	We have revisited the language in paragraph 43g, which deals with reporting, to clarify that a review engagement provides limited rather than reasonable assurance.
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10. We received 9 formal responses to our exposure draft and conducted significant additional outreach throughout the consultation process, allowing us to receive input from as wide a group of stakeholders as possible, and helping to inform our response below. Overall, most respondents were supportive of the FRC's desire to clarify both the director's and auditor's responsibilities and to require more detailed reporting on the work undertaken in relation to going concern.
11. However, many respondents also felt, as detailed in the responses to Q1 and Q2, that some of the new material potentially risked confusing auditors' responsibilities in a review engagement with those relevant to an audit of financial statements. Additionally, a number of respondents felt that the additional review procedures described in paragraph 27-2&3<sup>3</sup> were too closely aligned to the audit procedures required by ISA (UK) 570. We therefore held a roundtable attended by all of the audit firms who responded to the original consultation.

<sup>3</sup> Note that due to the re-drafting of parts of ISRE (UK) 2410 as a result of the consultation feedback, paragraph 27-2 of the exposure draft has become paragraph 27-1 in the final version of ISRE (UK) 2410. 27-1 will be used to refer to this paragraph throughout the remainder of this feedback statement.

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## Detailed analysis of responses

### **Q1: Do you agree that the revisions made to ISRE (UK) 2410 clarify the requirements for both directors and auditors in relation to assessments of going concern made when preparing interim financial statements, and subsequent review procedures?**

13. A majority of respondents agreed that Appendix 8 provided useful clarity on the directors' responsibilities for the preparation of interim financial information and for assessing the entity's ability to continue as a going concern. Most felt that this material helped to summarise the sometimes-complex requirements and included sufficient references to the source material.
14. Two respondents however did not believe it was appropriate to include such material in an assurance standard and cautioned against imposing requirements on directors through assurance standards. The FRC is clear that Appendix 8 does **not** impose any additional requirements on the directors of an entity and serves simply as a reminder of the directors' responsibilities which are set by the DTR and the relevant financial reporting framework. This Appendix was included as initial outreach with stakeholders indicated that they found this helpful, and the extant version of ISRE (UK) 2410 contained a similar appendix.
15. Given the majority of respondents were supportive of the material included within Appendix 8, the FRC has elected to retain the appendix but we have added explanatory text to clarify that this does not place any additional requirements upon directors and is included for reference purposes.
16. Six respondents believed that the inclusion of additional material at paragraph 8-1, which suggests that auditors may find the requirements and application material contained within ISA (UK) 570 helpful as additional supporting material when undertaking procedures in line with ISRE (UK) 2410, was ambiguous, risked widening the expectations gap and may create an unrealistic expectation of the work undertaken in a review engagement.
17. It is not the FRC's intention to suggest that audit procedures are required in relation to going concern in a review engagement, or that the requirements of ISA (UK) 570 directly apply in conducting a review engagement in line with ISRE (UK) 2410. As such we have retained paragraph 8-1 but re-worded it to make it clear that the reference to the requirements and application material contained within ISA (UK) 570 is a suggestion should auditors determine that they require additional guidance, and that the auditor may adapt and modify the material as necessary for a review engagement.
18. Finally, many respondents felt that whilst the wording in the illustrative report in Appendix 9 clarified directors' responsibilities, it did not provide enough clarity on the auditor's responsibilities. In response to this feedback, we have included within the illustrative report the following wording:

*"In reviewing the half-yearly report, we are responsible for expressing to the Company a conclusion on the condensed set of financial statement in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report."*

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**Q2: Do you agree that the linkage to ISA (UK) 570, and the requirement for auditors to update their understanding of the entity and its environment in relation to going concern, are clear and will lead to better identification of events and conditions that may cast doubt on the entities ability to continue as a going concern?**

19. Some respondents agreed that linking through to ISA (UK) 570, particularly in paragraph 13-2, was beneficial, whilst others felt that this suggested audit procedures were required in relation to going concern.
20. The FRC notes this concern, however paragraph 13 of ISRE (UK) 2410, which is not a UK specific addition, already requires the auditor to update their understanding of the entity and its environment when planning a review of interim financial information. The addition of paragraph 13-2 is intended to direct the auditor towards some of the matters that are required to be updated, not to suggest that audit procedures are required.
21. The FRC believes it is reasonable to retain the requirement found in the paragraph as it builds upon paragraph 13 and provides additional direction, but we have amended the wording to state that this understanding is updated based on the review work performed, to reflect the fact that an engagement to review interim financial information is conducted to a limited level of assurance.
22. A majority of, but not all, the audit firms who responded felt that the new requirement to perform review procedures in line with paragraph 27-1 also risked creating an expectation in users of the report that greater than limited assurance was being provided. Investor groups who responded were supportive of the additional requirements and suggested other additional procedures that they wish to see included in a more complete review of interim financial information.
23. Four of the audit firms who responded felt that the procedures required in paragraph 27-1 were too closely aligned to audit procedures described in ISA (UK) 570 and required a level of work not usually undertaken elsewhere in an interim review of financial information. For example, we received feedback that ensuring the “mathematical accuracy” of forecasts used to support going concern assessments made by management was potentially a significant undertaking where the model used is complex.
24. The FRC understands these concerns and we have amended the wording in paragraph 27-1 to take account of this feedback, whilst still requiring review procedures:

*“Where management have changed their assessment of the entity’s ability to continue as a going concern since the last annual financial statements, the auditor shall perform review procedures on management’s assessment of the entity’s ability to continue as a going concern to determine that:*

- The method selected, and any changes made to the methods used for the entity’s last annual financial statements, are reasonable.
  - Any calculations are accurately applied in accordance with management’s stated method.
  - The underlying data used to make any assessment of the entity’s ability to continue as a going concern is consistent with the auditors understanding of the entity; and
  - The assumptions on which management’s assessment is made are reasonable based on the auditor’s understanding of the entity”.
25. The FRC believes that auditors are capable of making the necessary judgement as to the nature and extent of the review procedures required in order to meet the risks identified in an interim review engagement.
  26. Auditors described to us how, in current circumstances, they were already undertaking a greater amount of work than they would generally for a review engagement, though still less than that required in an audit. For example, auditors told us that they may use similar procedures as those undertaken in line with ISA (UK) 570 in a review

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engagement but with less documentation, less corroboration of underlying assumptions used in forecasts and a more basic approach to examining underlying accounting records.

27. Some audit firms described how, in an audit, assessing if calculations were accurately applied may involve the use of in-house valuation experts and complex modelling, and were concerned that this would become the expectation for reviews of interim financial information with corresponding increases in both work effort and fees charged.
28. We do not believe that an 'audit' level of work, such as that described, will be necessary in the vast majority of interim reviews, but basic work to review whether, for example, a forecast as a whole casts, is a reasonable expectation for a review engagement and aligns with other stakeholders' expectations of the level of work undertaken in a review engagement given the level of fees currently charged.
29. In addition to the new requirement included above, investor groups also suggested that additional procedures are included, requiring the auditor to:
  - Determine if the interim financial information is consistent with the remainder of the review report and other external sources of information.
  - Perform detailed procedures on the risk of material misstatement due to fraud.
  - Perform procedures to test opening and closing cash balances in a manner similar to an audit.
30. Whilst the FRC understands the desire for additional procedures in these areas, we are not undertaking a full review of ISRE (UK) 2410 at this stage. Should a wider revision of ISRE (UK) 2410 be undertaken a future date, the FRC will consult again on the proposals, which may include additional procedures.
31. The FRC believes that the re-worded requirements in paragraph 27-1 achieve our objective in revising ISRE (UK) 2410, at the same time as responding to the feedback received and ensuring that additional requirements take account of the public interest and the expectations of users of interim financial information.
32. Finally, a number of respondents requested that the FRC establish the minimum work effort expected in order to meet the objective of ISRE (UK) 2410. This standard, and all audit and assurance standards adopted for use in the UK by the FRC, are principles based and ISRE (UK) 2410 requires the auditor to understand the entity and its environment, to determine risk, and to respond appropriately. As such, in keeping with the approach taken in the ISAs (UK), it would not be appropriate for the FRC to prescribe a minimum work effort in ISRE (UK) 2410.

**Q3: Do you agree with the requirement to separately report on going concern in the review report, under a heading titled Conclusions Relating to Going Concern, similar to the requirement of ISA (UK) 570 is reasonable?**

33. A majority of respondents agreed with the new reporting requirement, in paragraph 43 (g), to separately report on going concern in the review report, mirroring the requirements of ISA (UK) 570. They supported the FRC's desire to revise the reporting requirements within ISRE (UK) 2410 to provide additional information to users of review reports on the auditors work in relation to going concern.
34. Three respondents highlighted however that this additional reporting requirement may widen the expectations gap and risks suggesting to users of the interim financial information that more has been done on going concern than is actually the case. Additionally, two of those respondents expressed concern that including a specific conclusion in relation to going concern may lead users to believe that a guarantee of the entities ability to continue as a going concern has been provided.



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35. We have therefore included within the final version of ISRE (UK) 2410 additional wording to make clear the auditors' responsibilities and the level of work this is based upon, whilst still retaining the additional reporting requirement. We have also included illustrative wording to make clear that the conclusion provided is not a guarantee of the entities ability to continue as a going concern and that future events or conditions which may affect going concern cannot be predicted. As such, the conclusion required by paragraph 43 (g), and included within the illustrative review report in Appendix 9, is:

*"Based on our review procedures, which are less extensive than those performed in an audit, as described in the Basis of Conclusion section of this report, nothing has come to our attention to suggest that management have inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed.*

*This conclusion is based on the review procedures performed in accordance with this ISRE, however future events or conditions may cause the entity to cease to continue as a going concern."*

**Q4: Do you agree that the proposed effective date of financial reporting periods commencing on or after 15th December 2021 is reasonable given the revisions made to ISRE (UK) 2410?**

36. All respondents agreed that an effective date of 15th December 2021 is reasonable. Many respondents noted that publication as soon as possible after the final version of ISRE (UK) 2410 is approved would be beneficial for practitioners, allowing them sufficient time for adoption and to update methodologies where required.

**Q5: In considering a future, broader, review of interim financial reporting and ISRE (UK) 2410, what factors should the FRC consider? Do you have any suggestions as to how ISRE (UK) 2410 could be enhanced, and which areas any future revision should focus on?**

37. Overall, most respondents agreed that ISRE (UK) 2410 was in need of more substantial revision. The majority of respondents however felt that any significant revision should be undertaken at the international level, with the FRC working with the IAASB to develop a revised standard, in order to ensure that equivalency is maintained.
38. In general, the FRC agrees that any substantial revision to ISRE (UK) 2410 should be driven by an international project at the IAASB to revise ISRE 2410 and for any subsequent revision of the UK standard to be based upon a revised international standard
39. However, should UK specific circumstances develop which mean a more immediate and substantial change is required to interim financial reviews in the UK, the FRC will re-visit the possibility of including additional UK specific material within ISRE (UK) 2410.

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## Impact Assessment

40. We believe that the revisions to ISRE (UK) 2410 are proportionate and reflect current practice. Though we have emphasised the requirements for directors to assess going concern, we have not introduced new requirements on directors that are not already present in the relevant financial reporting frameworks in the UK.
41. We do not believe that the requirements placed on auditors in this revised standard represent a significant or unmanageable additional amount of work given that many of the requirements build on work already done in auditing the last annual financial statements.
42. We believe that benefits in the public interest, enhancing the quality of review engagements on interim financial statements, will outweigh the any costs for changes that may be necessary to audit firms' methodologies.

**Financial Reporting Council**

**May 2021**



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