



INTERNATIONAL STANDARD ON REVIEW ENGAGEMENTS (UK) 2410 (ISRE (UK) 2410)

INVITATION TO COMMENT

NOVEMBER 2020

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Executive Summary and Objective

1. International Standard on Review Engagements 2410 (ISRE 2410) was issued by the IAASB in 2006 setting requirements for an auditor undertaking an engagement to review the interim financial statements of an audit client. The UK adopted this standard in 2007 with some limited additional material designed to address specific circumstances in the UK. The UK standard has not been updated since it was originally issued.
2. The FRC has recently reviewed ISRE (UK) 2410 in the context of changes to auditing standards. As a result, we are proposing to revise parts of the standard to ensure that it remains fit for purpose in the current environment. Our specific objective in performing this limited revision to ISRE (UK) 2410 was to address a potential lack of clarity in relation to going concern when performing a review of interim financial information. We undertook this work to ensure that the level of work carried out by auditors reflects wider expectations on going concern, particularly given recent high-profile corporate failings, and aligns with the requirements of ISA (UK) 570 *Going Concern*.
3. Though a review undertaken in line with ISRE (UK) 2410 is not an audit, and thus the ISAs (UK) do not directly apply, the work is linked and 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 provide.
4. Although these revisions were planned before COVID-19 and the increased focus on going concern this has created, current events have highlighted the need for strengthened requirements in relation to going concern and reviews of interim financial information.
5. Our current revisions are limited to those areas which deal with going concern. A full revision was considered but ultimately not immediately pursued owing to potential overlap with recommendations from the Brydon report relating to material outside the financial statements¹.
6. The FRC is however interested in respondents' views on a potentially more systematic revision of ISRE (UK) 2410 in the future, and as such, we welcome any comments on ISRE (UK) 2410 and reviews of interim financial statements as a whole.

Invitation to comment

7. The FRC is requesting comments on this consultation by 5pm on 19 February 2021. Comments are invited in writing on all aspects of the consultation, particularly in relation to questions 1-5 as detailed below. Comments on the Consultation Paper should be sent to:

Jason Bradley
Project Director
Financial Reporting Council
E-mail: AAT@frc.org.uk

¹ Sir Donald Brydon, *Assure, Assess and Inform: Improving Audit Quality and Effectiveness*, Section 5.3.12

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 IAASB 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 was issued in 2007 and 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 published². 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 and implementation of his 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 government's consultation on the Brydon recommendations.
6. The FRC is, however, interested in understanding respondents' views not just on our targeted revisions, but on ISRE (UK) 2410 and interim financial reporting as a whole and as such we have included question 5 in this invitation to comment as a basis for engagement with respondents on broader issues around interim financial reporting.
7. Recent revisions to ISA (UK) 570 Going Concern have increased both the level of work and the reporting requirements for auditors due, in part, to recent corporate failures in the UK. 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.

² Disclosure and Transparency Rulebook Rule 4.2.9

8. The extant version of ISRE (UK) 2410, specifically paragraphs 27 to 29, contains requirements for how going concern should be addressed in the context of work on interim financial statements but these do not reflect recent revisions to the ISAs (UK), the UK Corporate Governance Code or the expectations on UK directors and practitioners in this area.
9. Given the current interest in going concern, we believe that a limited revision of ISRE (UK) 2410 to ensure that the relevant sections reflect current expectations is necessary. 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 for clarity.
10. Whilst our revisions were not made directly as a result of COVID-19, they are even more important now given the increased focus on going concern, both in the annual financial statements and in interim financial information.

Summary of Key Revisions

11. In addition to editorial changes and the updating of links and references, the following key revisions to ISRE (UK) 2410 have been made in meeting the objective outlined above:

Key Revision	ISRE 2410 Paragraph Reference	Explanation
Clarification of requirements for directors to assess going concern when preparing interim financial information	Appendix 8 Footnote 5	<p>Though ISRE (UK) 2410 is not an accounting standard, there was a lack of clarity as to the actual requirements on directors to assess going concern when preparing interim financial information. It was thus subsequently unclear what level of work was expected of the auditor in relation to any assessment made.</p> <p>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.</p> <p>We have also included material similar to that in ISA (UK) 570, which describes how the going concern basis of accounting is fundamental to accounts and, as such, should always be considered by the directors even when the applicable financial reporting framework does not require an explicit assessment.</p>
Linkage of the work undertaken by the auditor at the interim to the risk assessment	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.

<p>conducted as part of the audit of the last annual financial statements</p>		<p>We have added in 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) 570³, 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.</p> <p>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.</p>
<p>Strengthening of the review procedures required to be performed by the auditor on management's going concern assessment</p>	<p>Paragraphs 27-1 to 27-3</p>	<p>We have included paragraph 27-2, which is an explicit requirement for auditors to perform review procedures on management's assessment of the entities 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.</p>
<p>Strengthening of reporting requirements in relation to going concern</p>	<p>Paragraph 43(g)</p>	<p>We have 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.</p>
<p>Linkage through to ISAs (UK) where appropriate</p>	<p>Various</p>	<p>In addition to above, we have linked to both ISA (UK) 570 and ISA (UK) 705, indicating that whilst engagements undertaken in line with ISRE (UK) 2410 are not audits, material in those auditing standards may be of use to auditors when undertaking their work in relation to going concern or where they may be required to modify their final review report.</p>

³ ISA (UK) 570 (Revised September 2019), Paragraph 10-2

Questions

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?

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?

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?

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?

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

Impact Assessment

12. As a matter of policy, the FRC's auditing and assurance standards are based on the corresponding international standards issued by the IAASB. Where necessary the international standards are augmented with additional requirements to address specific UK legal and regulatory requirements.
13. We believe that the proposed 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 requirements on directors that are not already present in the relevant financial reporting frameworks in the UK.
14. 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.
15. 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 or approaches to reviews of interim financial information.

Financial Reporting Council

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