ICAEW
REPRESENTATION 19/21

EXPOSURE DRAFT OF INTERNATIONAL STANDARD ON REVIEW ENGAGEMENTS (UK) 2410 (ISRE (UK) 2410)

Issued 16 February 2021

ICAEW welcomes the opportunity to comment on the Exposure Draft of International Standard on Review Engagements (UK) 2410 (ISRE (UK) 2410) published by FRC on 27 November 2020, a copy of which is available from this link.

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KEY POINTS

1. ISRE (UK) 2410 was issued in 2007 and is based on the IAASB standard issued in 2006. ISRE 2410 was not updated as part of the clarity project and ISRE (UK) 2410 has not been subsequently updated. We agree that it is important that the standard remains fit for purpose in the current environment and welcome the FRC's review.
2. We note the FRC's concern about a lack of clarity around directors' responsibilities in relation to going concern and interim financial information, but we do not consider that a review standard aimed at auditors is the right place for this clarification. Where further clarification or enhancements are needed then the FRC should, instead, be seeking to develop guidance specifically for directors or update its guidance on risk, internal controls and going concern.
3. We also do not think that the proposed revisions provide clarity on the requirements for auditors in relation to the directors' assessment of going concern when preparing interim financial statements. We are concerned that the FRC is effectively seeking to shoehorn the requirements of ISA (UK) 570 into a review standard, which will result in the need for auditors to perform an 'audit level' of work effort on going concern when performing reviews of interim financial statements, despite the fact that auditors performing an interim review engagement are not required to audit the financial information.
4. Furthermore, given that the auditor's review report on the interim financial information also provides no opportunity for auditors to explain the extent of their responsibilities and work performed in relation to going concern, there is a risk that the proposed conclusion will be open to misinterpretation by users of the interim financial statements. This is compounded by the fact that the proposed conclusion is not easy to read or understand with the inclusion of double negatives. A conclusion that says that nothing has come to the auditors' attention that causes them to believe that the interim financial information has not been appropriately prepared on the going concern basis of accounting could be read as implying that the auditors did not identify any issues in this regard, whether they assessed them to be material or not and so users may assume a higher degree of comfort than intended thereby leading to expectation gaps.
5. Regardless of whether the FRC goes ahead with these more limited changes, there is a clear need for a more comprehensive review and update of the standard to better align with other reporting standards, to address issues of clarity (as it was not part of the IAASB's clarity project), and the introduction of the new Quality Management standards to ensure the standard remains fit for purpose in the current environment. Any broader questions about work effort involved or the need to mandate substantive testing on interim reviews deserve a broad programme of outreach with audit firms, audited entities, the users of interim financial information and other relevant stakeholders.

ANSWERS TO SPECIFIC QUESTIONS

Question 1. 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?

6. We note the FRC's concern about a lack of clarity around directors' responsibilities in relation to going concern and interim financial information, but we would question why such clarification, and emphasis on the expectations of directors in this area would be included in a standard that is for auditors and specifically addresses auditor requirements in relation to reviews of interim reports. We consider it unhelpful for the FRC to seek to impose standards on directors via review standards for auditors. Where further clarification or enhancements are needed then the FRC should, instead, be seeking to develop guidance specifically for directors or update its guidance on risk, internal controls and going concern.
7. We also do not think that the proposed revisions provide clarity on the requirements for auditors in relation to the directors' assessment of going concern when preparing interim

financial statements. We are concerned that the proposals appear to be shoehorning the requirements of ISA (UK) 570 into a review standard, effectively resulting in the need for auditors to perform an ‘audit level’ of work effort on going concern when performing reviews of interim financial statements, yet auditors performing an interim review engagement are not required to audit the financial information. Furthermore, given that the auditor’s review report on the interim financial information also provides no opportunity for auditors to explain the extent of their responsibilities and work performed in relation to going concern, there is a risk that the proposed conclusion will be open to misinterpretation by users of the interim financial statements – see our response to question 3.

8. Given the additional requirements and links to ISAs, we believe that auditors may be less willing to perform such engagements, as the risk may no longer be covered by a review level work effort.

9. The proposed revisions include the need for auditors to perform ‘review procedures’ in relation to going concern assessments, for example, paragraph 27-2 refers to the need to perform procedures to determine the reasonableness of the method selected and assumptions made and reliability of the underlying data, but it does not elaborate on what these procedures might be expected to be.

10. In updating the other review report examples in the appendices for the requirement to report on going concern, we note that the paragraphs have also been moved around so that the conclusion is now at the start of the example reports. Given that there is a specific reference to the UK example (albeit incorrectly to appendix 8 instead of appendix 9), we would suggest that for clarity, the FRC just amends the example in appendix 9.

11. The proposed standard also needs to be updated given that for the period the standard will apply the UK will not be an EEA state and the transitional provisions referred to will no longer be relevant.

12. The wording in footnote 11 needs to be tightened up. ‘The FRC is concerned that in some circumstances...’ would not seem appropriate language to use in a standard.

13. Overall, the revisions proposed make the standard appear repetitive and confusing in places which highlights the need for a much broader review and rewrite of the standard to provide greater clarity to those seeking to apply it (see our response to question 5).

Question 2. Do you agree that the linkage to ISA (UK) 570, and the requirement for auditors to update their understanding of the entity and it’s 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?

14. See our response to question 1 above. We believe the proposed revisions go too far and that audit-level requirements in relation to going concern are effectively being forced into a review standard. One particular concern is that the work effort on the interim balance sheet, which is the starting point in terms of assets and liabilities for any future forecasting, is of a review level, yet a higher level of work on the forecasting is expected. This could mislead users, particularly in situations where the balance sheet is comprised of a greater proportion of estimates. The proposed standard largely focusses on doing more work on the forecasts; yet this may all be for nothing without more work on the assets. If this matter is to be left to professional judgement, we suggest that at least some guidance is necessary.

Question 3. 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?

15. The proposed conclusion, with the inclusion of double negatives, is not easy to read or understand and we are concerned that it may raise the bar in terms of work effort anticipated and the expectations of users.

16. A conclusion that says that nothing has come to the auditors' attention that causes them to believe that the interim financial information has not been appropriately prepared on the going concern basis of accounting could be read as implying that the auditors did not identify any issues in this regard, whether they assessed them to be material or not, and so users may assume a higher degree of comfort than intended.
17. Our concern is further compounded by the fact that in an audit report on financial statements auditors would have the opportunity to explain their responsibilities in relation to going concern and, for certain entities, eg. public interest entities, would be required to provide an explanation of how they had evaluated management's assessment and the key observations arising with respect to that evaluation. There is no requirement to include this information in the auditor's review report on interim financial information and users may not therefore fully understand the difference in the work performed for these engagements.
18. The proposed conclusion focuses on the basis of preparation of the interim financial statements but given that departure from this is likely to be rare it would be more helpful if the focus could be on the disclosure of material uncertainties relating to going concern with example report wording provided in the appendices to help auditors address this. We accept that the underlying ISRE 2410 has not been updated by the IAASB to include a separate reporting section for reporting such uncertainties to mirror those in the ISAs. However, we suggest that this should not prevent the auditor reporting in situations where no material uncertainty has been identified. We suggest a conclusion might be something like "In forming our review conclusion, we did not become aware of any material uncertainties…."
19. References in paragraph 54-1 of the proposed standard to 'where the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances and no material uncertainty has been identified' are confusing because the auditors are not required to give this positive conclusion in the review report. The wording in paragraph 54-1 also refers to 'reporting by exception' which appears inconsistent with the revised wording in ISA (UK) 570.
20. Given the above concerns, we consider it would be helpful to seek feedback from users of interim financial information on their understanding of the proposed report wording.

Question 4. 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?

21. If the FRC decides to go ahead with the proposed revisions, it will be important that this decision is made quickly so that it may be capable of being applied by auditors to June 2021 period-ends. It is likely in the current environment that auditors might be measured against this revised standard if something went wrong, even if they chose not to adopt the revised standard early.
22. There is, however, a need for a much broader review and update of the standard which includes appropriate outreach (see our response to question 5).

Question 5. 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 ….?

23. Regardless of whether the FRC makes the changes proposed in the Exposure Draft now, we believe there is a need for a more comprehensive review and update of the standard to better align with other reporting standards, to address issues of clarity (as it was not part of the IAASB's clarity project), and the introduction of the new Quality Management standards. Any broader questions about work effort involved or the need to mandate substantive testing on interim reviews deserve a broader programme of outreach with audit firms, audited entities, the users of interim financial information and other relevant stakeholders. The views

of users, particularly in respect of the degree of assurance they take from the review report, will be particularly important. Other areas to consider might include the determination of materiality, whether some substantive work may be necessary in areas such as volatile fair values where analytical procedures (eg, trends year on year) may be of less use, the degree of work on controls necessary for (i) an incoming auditor and (ii) an existing auditor where a system has changed since their last audit, and the auditors' responsibility for unreviewed narrative information accompanying reviewed interim financial statements.