

SELECTED DRAFTING — PROPOSED INTERNATIONAL STANDARD ON REVIEW ENGAGEMENTS (ISRE) 2410 (REVISED), REVIEW OF INTERIM FINANCIAL INFORMATION PERFORMED BY THE INDEPENDENT AUDITOR OF THE ENTITY

This Agenda Item sets out preliminary drafting proposed by the Project Team for certain sections of proposed ISRE 2410 (Revised). Paragraphs taken from extant ISRE 2410 are shown in mark-up. Otherwise, the drafting is based on the wording from the identified source standards, modified as appropriate to reflect the circumstances of an interim review engagement. The yellow highlighted references in brackets indicate the relevant paragraphs from extant ISRE 2410, ISRE 2400 (Revised),¹ or other IAASB standards that were the source of the proposed wording.

Consistent with past IAASB projects, a mapping document will be prepared for the Board's reference at a later meeting, prior to the approval of the exposure draft, showing how the introduction, objectives, definitions and requirements in extant ISRE 2410 have been addressed in proposed ISRE 2410 (Revised).

Introduction

Scope of this Proposed ISRE

1. ~~The purpose of this~~ This proposed International Standard on Review Engagements (ISRE) deals with: (Ref: Para. A1)
 - (a) ~~is to establish standards and provide guidance on the~~ The auditor's professional responsibilities when ~~the auditor undertakes an engaged to perform a engagement to~~ review of interim financial information of an audit client ("interim review engagement"), and
 - (b) ~~on the~~ The form and content of the auditor's review report on the interim financial information.

The term "auditor" is used ~~throughout in this~~ proposed ISRE in the context of an interim review engagement, and not because the auditor is performing an audit ~~function but because the scope of this ISRE is limited to a review of interim financial information performed by the independent auditor of the annual financial statements of the entity.~~

[Extant paragraph 1 and first sentence of extant paragraph 3a]

2. This proposed ISRE ~~is directed towards a review of interim financial information by an entity's auditor. However, it is~~ also to be applied, adapted as necessary in the circumstances, when an entity's auditor undertakes an engagement to review historical financial information other than interim financial information of an audit client. [Extant paragraph 3a]

Review of Interim Financial Information by a Practitioner Who Is Not the Entity's Auditor

3. ~~A practitioner who is engaged to perform a review of~~ This proposed ISRE does not apply to an engagement to review interim financial information, ~~and performed by a practitioner who is not the entity's auditor of the entity. Such engagements are performed~~ performs the review in

¹ ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*

accordance with ISRE 2400 (Revised), ~~Engagements to Review Historical Financial Statements~~.²
(Ref: Para. A2) [Extant paragraph 3, penultimate sentence]

Relationship with Other Professional Pronouncements and Other Requirements

4. This ISRE includes requirements and application material for all elements of an interim review engagement. Accordingly, the auditor is not required to apply any other IAASB engagement standards when performing the interim review engagement. [ISAE 5000, paragraph 11].
5. This ISRE is premised on the engagement partner being a member of a firm that applies ISQM 1,³ or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQM 1. ISQM 1 applies to a firm's review engagements. The system of quality management and policies or procedures are the responsibility of the firm. [ISRE 2400 (Revised), paragraph 4, and sections in other assurance standards that address the premise of the engagement].
6. This ISRE also is premised on the auditor complying with the provisions of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) related to audit and review engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding. [Sections in other assurance standards that address the premise of the engagement].

An Interim Review Engagement

7. An interim review engagement is a limited assurance engagement, as described in the *International Framework for Assurance Engagements* (Assurance Framework).⁴ [ISRE 2400 (Revised), paragraph 5]
8. In an interim review engagement, the auditor expresses a conclusion that is designed to enhance the degree of confidence of intended users about an entity's interim financial information, prepared by management in accordance with the applicable financial reporting framework. The auditor's conclusion is based on obtaining limited assurance. The auditor performs primarily inquiry and analytical procedures to obtain sufficient appropriate evidence as the basis for the limited assurance conclusion. (Ref: Para. A3-A7) [ISRE 2400 (Revised), paragraphs 6 and 7]
9. If the auditor becomes aware of a matter that causes the auditor to believe the interim financial information may be materially misstated, this proposed ISRE requires the auditor to design and perform additional procedures, as considered necessary in the circumstances, to be able to express a limited assurance conclusion on the interim financial information in accordance with this proposed ISRE. [ISRE 2400 (Revised), paragraph 8]

Difference from an Audit of Financial Statements

10. ~~The objective of a~~ review of interim financial information differs significantly from ~~that of~~ an audit conducted in accordance with International Standards on Auditing (ISAs). A review of interim financial information does not provide a basis for expressing an opinion whether the financial

² ~~ISRE 2400 (Revised), Engagements to Review Historical Financial Information~~

³ International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

⁴ International Framework for Assurance Engagements, paragraphs 15 and 16

information gives a true and fair view, or is presented fairly, in all material respects, in accordance with an applicable financial reporting framework. [Extant paragraph 8]

11. A review, in contrast to an audit, is not designed to obtain reasonable assurance that the interim financial information is free from material misstatement. ~~A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. Because the level of assurance obtained in a limited assurance engagement is substantially lower than in a reasonable assurance engagement, the procedures the practitioner will perform in a limited assurance engagement will vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement.~~ A review may bring significant matters affecting the interim financial information to the auditor's attention, but it does not provide all of the evidence that would be required in an audit. [Extant paragraph 9; penultimate sentence taken from ISSA 5000, paragraph 9]

Effective Date

12. This proposed ISRE is effective for reviews of interim financial information for periods beginning on or after [Date].

Objectives

13. In conducting a review of interim financial information, the objectives of the auditor are:
- (a) To obtain limited assurance about whether the interim financial information as a whole is free from material misstatement, thereby enable ~~enabling~~ the auditor to express a conclusion about whether, ~~on the basis of the review,~~ anything has come to the auditor's attention that causes the auditor to believe the interim financial information is not prepared, in all material respects, in accordance with ~~an~~ the applicable financial reporting framework; and
 - (b) To communicate as required by this proposed ISRE.
- [First sentence of extant paragraph 7; ISRE 2400 (Revised), paragraph 14]
14. In all cases when limited assurance cannot be obtained, and a qualified conclusion in the auditor's interim review report is insufficient in the circumstances for purposes of reporting to the intended users, this proposed ISRE requires the auditor to disclaim a conclusion or withdraw from the engagement, where withdrawal is possible under applicable law or regulation. [ISRE 2400 (Revised), paragraph 15]

Definitions

15. For purposes of this proposed ISRE, the following terms have the meanings attributed below:
- (a) *Analytical procedures*—Evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount. [ISRE 2400 (Revised), paragraph 17(a)]
 - (b) *Applicable financial reporting framework*—The financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation of interim financial information that is acceptable in view of the nature of the entity and the objective of the interim financial information, or that is required by law or regulation.

The term “fair presentation framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

- (a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the interim financial information, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the interim financial information. Such departures are expected to be necessary only in extremely rare circumstances.

The term “compliance framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework but does not contain the acknowledgements in (a) or (b) above. [Adapted from definition in the Glossary]

- (c) *Inquiry*—Inquiry consists of seeking information of knowledgeable persons from within or outside the entity. [ISRE 2400 (Revised), paragraph 17(e)]
- (d) *Interim financial information*—~~Historical Financial-financial~~ information that is prepared and presented in accordance with an applicable financial reporting framework,⁵ ~~and comprises comprising~~ either a complete or a condensed set of financial statements for a period ~~or periods~~ shorter than the entity's financial year. [Extant paragraph 2]
- (e) *Limited assurance*—The level of assurance obtained where engagement risk is reduced to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for expressing a conclusion in accordance with this proposed ISRE. The nature, timing and extent of procedures performed is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the auditor's professional judgment, meaningful. To be meaningful, the level of assurance obtained by the auditor is likely to enhance the intended users' confidence about the interim financial information to a degree that is clearly more than inconsequential. (Ref: Para. A14) [ISRE 2400 (Revised), paragraph 17(f), modified to be consistent with the Assurance Framework and other IAASB assurance standards.]
- (f) *Relevant ethical requirements*—Principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking the interim review engagement. Relevant ethical requirements ordinarily comprise the provisions of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) related to audit and review engagements, together with national requirements that are more restrictive. [ISRE 2400 (Revised), paragraph 17(i)]
- (g) *Review procedures*—The procedures deemed necessary to meet the objective of a review engagement, primarily inquiries and analytical procedures. [Adapted from definition in the Glossary]

⁵ ~~For example, International Financial Reporting Standards as issued by the International Accounting Standards Board.~~

Requirements

Conduct of an Interim Review Engagement in Accordance with this Proposed ISRE

Text of this Proposed ISRE

16. The auditor ~~who is engaged to perform a review of interim financial information should perform the review in accordance with~~ shall have an understanding of the entire text of this proposed ISRE, including its application and other explanatory material, to understand its objectives and to apply its requirements properly. (Ref: Para. A8) [ISRE 2410, paragraph 3 black letter; ISRE 2400 (Revised), paragraph 18]

Complying with Relevant Requirements

17. The auditor shall comply with each requirement of this proposed ISRE, unless the requirement is not relevant to the interim review engagement. A requirement is relevant to the interim review engagement when the circumstances addressed by the requirement exist. [ISRE 2400 (Revised), paragraph 19]
18. The auditor shall not represent compliance with this proposed ISRE unless the auditor has complied with all the requirements of this proposed ISRE relevant to the interim review engagement. [ISRE 2410, paragraph 3 black letter; ISRE 2400 (Revised), paragraph 20]
19. In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in the ISRE. In such circumstances, the auditor shall perform alternative procedures to achieve the aim of that requirement. The need for the auditor to depart from a relevant requirement is expected to arise only when the requirement is for a specific procedure to be performed and, in the specific circumstances of the interim review engagement, that procedure would be ineffective in achieving the aim of the requirement. (Ref: Para. A9) [ISSA 5000, paragraph 23]

Documentation of a Departure from a Relevant Requirement

20. If, in exceptional circumstances, the auditor judges it necessary to depart from a relevant requirement in this proposed ISRE, the auditor shall document how the alternative procedures performed achieve the aim of that requirement, and the reasons for the departure. (Ref: Para. A10) [ISSA 5000, paragraph 24]

Relevant Ethical Requirements (Ref: Para. A11-A12)

21. The auditor shall comply with ~~the relevant~~ ethical requirements, ~~including those related to independence, relevant to the audit of the annual financial statements of the entity.~~ [Extant ISRE 2410, paragraph 4, black letter]

Professional Skepticism and Professional Judgment

22. The auditor shall plan and perform the engagement with ~~an attitude of~~ professional skepticism recognizing that circumstances may exist that cause the interim financial information to be materially misstated ~~require a material adjustment for it to be prepared, in all material respects in accordance with the applicable financial reporting framework.~~ (Ref: Para. A13–A16) [Extant paragraph 6, black letter; ISRE 2400 (Revised), paragraph 22]
23. The auditor shall exercise professional judgment in conducting the engagement. (Ref: Para. A17–A20) [ISRE 2400 (Revised), paragraph 23]

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Application and Other Explanatory Material

Scope of this Proposed ISRE (Ref: Para. 1)

- A1. In performing a review of interim financial information, the auditor may be required to comply with legal or regulatory requirements, which may differ from the requirements established in this proposed ISRE. While the auditor may find aspects of this proposed ISRE helpful in these circumstances, it is the responsibility of the auditor to ensure compliance with all relevant legal, regulatory and professional obligations. [ISRE 2400 (Revised), paragraph A1]

Reviews of Interim Financial Information by a Practitioner Who Is Not the Entity's Auditor (Ref: Para. 3)

- A2. ISRE 2410 applies to reviews of interim financial information performed by the entity's auditor. Through performing the audit of the annual financial statements, the auditor obtains an understanding of the entity and its environment, including its the applicable financial reporting framework and the entity's system of internal control (sometimes referred to as an audit-level understanding). When the auditor is engaged to review the interim financial information, this understanding is updated through inquiries made in the course of the review, and which assists the auditor in focusing the inquiries to be made and the analytical procedures and other review procedures to be applied. A practitioner who is engaged to perform a review of interim financial information, and who is not the auditor of the entity, performs the review in accordance with ISRE 2400 (Revised), Engagements to Review Historical Financial Statements. As the practitioner entity's annual financial statements does not ordinarily have the this same audit-level understanding of the entity and its environment, including its internal control, as the auditor of the entity. Therefore, the that practitioner is required to perform the review engagement in accordance with ISRE 2400 (Revised) and will needs to carry out perform different inquiries and procedures to meet the objective of the review that standard. [Extant paragraph 3]

An Interim Review Engagement (Ref: Para. 8)

[See paragraph 13 of Agenda Item 7 for the sources of paragraphs A3-A7]

Management's Responsibility for the Interim Financial Information

- A3. Management, with oversight from those charged with governance, is responsible for:
- (a) Preparing, and where relevant, the fair presentation of the interim financial information in accordance with an applicable financial reporting framework; and
 - (b) Establishing and maintaining effective internal control to enable the preparation of interim financial information that is free from material misstatement, whether due to fraud or error.
- A4. An interim review engagement in accordance with this proposed ISRE is conducted on the premise that management and, where appropriate, those charged with governance have acknowledged certain responsibilities that are fundamental to the conduct of the interim review. The review of the interim financial information by the entity's auditor does not relieve management or those charged with governance of their responsibilities.

The Applicable Financial Reporting Framework

- A5. Local law or regulation, securities regulation, stock exchange rules, or jurisdictional standards may affect the financial reporting framework used to prepare the interim financial information, the period for which it is prepared (e.g. quarterly or half-yearly), and whether the interim financial information is required to be reviewed, or possibly audited, by the independent auditor of the entity.
- A6. The applicable financial reporting framework for the preparation of interim financial information in a jurisdiction may, for example, encompass recognized financial reporting standards and may be supplemented by other requirements in law or regulation relating to interim financial reporting.
- A7. The requirements for preparing interim financial information may be different from those for a complete set of financial statements. Jurisdictions that require interim financial reporting ordinarily do not require complete sets of financial statements to be provided at interim dates. Due to considerations such as timeliness and cost, and to avoid repetition of information previously reported as part of the annual financial statements, an entity may be able to provide less information at interim dates as compared with its annual financial statements. Interim financial information typically provides an update on the latest complete set of annual financial statements, focusing on new activities, events, and circumstances, and does not duplicate information previously reported.

Conduct of a Review Engagement in Accordance with this Proposed ISRE (Ref: Para. 16-20)

- A8. This proposed ISRE does not override laws and regulations that govern a review of interim financial information. In the event that those laws and regulations differ from the requirements of this proposed ISRE, a review conducted only in accordance with laws and regulations will not automatically comply with this proposed ISRE. [ISRE 2400 (Revised), paragraph A13]

Complying with Relevant Requirements (Ref: Para. 17-19)

- A9. The requirements of this proposed ISRE are designed to enable the auditor to achieve the objectives specified in the ISRE. Accordingly, other than in exceptional circumstances, the auditor is required to comply with each requirement that is relevant in the circumstances of the interim review engagement. [ISSA 5000, paragraph A56]

Documentation of a Departure from a Relevant Requirement (Ref: Para. 20)

- A10. The engagement documentation requirements apply only to requirements that are relevant in the circumstances. A requirement is not relevant only when the requirement is conditional and the condition does not exist (for example, the requirement to modify the auditor's conclusion when there is an inability to obtain sufficient appropriate evidence, and there is no such inability). [ISSA 5000, paragraph A57]

Relevant Ethical Requirements (Ref: Para. 21)

- A11. Relevant ethical requirements may include provisions that apply for both audit and review engagements. For example, the International Independence Standards in Part 4A of the IESBA Code apply to both audit and review engagements unless otherwise stated. The Code also sets out fundamental principles that establish the standard of behavior expected of a professional accountant. The fundamental principles are: integrity, objectivity, professional competence and due care, confidentiality, and professional behavior. The IESBA Code specifies the required approach for a professional accountant to comply with the fundamental principles and, when

applicable, the International Independence Standards. Law or regulation in a jurisdiction may also contain provisions addressing ethical requirements, including independence, such as privacy laws affecting the confidentiality of information. [ISRE 2400 (Revised), paragraph A14; ISSA 5000, paragraph A58]

- A12. The IESBA Code describes independence as comprising both independence of mind and independence in appearance. The auditor's independence safeguards the auditor's ability to form a conclusion without being affected by influences that might otherwise compromise that conclusion. Independence enhances the auditor's ability to act with integrity, to be objective and to maintain an attitude of professional skepticism. [ISRE 2400 (Revised), paragraph A15]

Professional Skepticism and Professional Judgment

Professional Skepticism (Ref: Para. 22) [ISRE 2400 (Revised), paragraphs A16-A19]

- A13. Professional skepticism is necessary for the critical assessment of evidence in an interim review. This includes questioning inconsistencies and investigating contradictory evidence, and questioning the reliability of responses to inquiries and other information obtained from management and those charged with governance. It also includes consideration of the sufficiency and appropriateness of evidence obtained in the light of the engagement circumstances.

- A14. Professional skepticism includes being alert to, for example:

- Evidence that is inconsistent with other evidence obtained.
- Information that calls into question the reliability of documents and responses to inquiries to be used as evidence.
- Conditions that may indicate possible fraud.
- Any other circumstances that suggest the need for additional procedures.

- A15. Maintaining professional skepticism throughout the interim review is necessary if the auditor is to reduce the risks of:

- Overlooking unusual circumstances.
- Over-generalizing when drawing conclusions from evidence obtained.
- Using inappropriate assumptions in determining the nature, timing and extent of the procedures performed in the review, and evaluating the results thereof.

- A16. The auditor cannot be expected to disregard past experience of the honesty and integrity of the entity's management and those charged with governance. Nevertheless, a belief that management and those charged with governance are honest and have integrity does not relieve the auditor of the need to maintain professional skepticism or allow the auditor to be satisfied with evidence that is inadequate for the purpose of the interim review engagement.

Professional Judgment (Ref: Para. 23) [ISRE 2400 (Revised), paragraphs A20-A24]

- A17. Professional judgment is essential to the proper conduct of an interim review engagement. Professional judgment is necessary, in particular:

- Regarding decisions about materiality, and about the nature, timing and extent of procedures performed.

- When evaluating whether the evidence obtained from the procedures performed reduces the engagement risk to a level that is acceptable in the engagement circumstances.
 - When considering management's judgments in applying the applicable financial reporting framework.
 - When forming the conclusion on the interim financial information based on the evidence obtained, including considering the reasonableness of the estimates made by management in preparing the interim financial information.
- A18. The distinguishing feature of the professional judgment expected of the auditor is that it is exercised by an auditor whose training, knowledge and experience, including in the use of assurance skills and techniques, have assisted in developing the necessary competencies to achieve reasonable judgments. Professional judgment is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement, or the evidence obtained.
- A19. The exercise of professional judgment by the auditor is based on the facts and circumstances of the interim review engagement, including:
- Knowledge acquired from the preceding year's audit and interim reviews of prior interim period(s) in the current year, where applicable.
 - The auditor's understanding of the entity and its environment, including its system of internal control, and of the application of the applicable financial reporting framework in the entity's industry.
 - The extent to which the preparation and presentation of the interim financial information in accordance with the applicable financial reporting framework require the exercise of management judgment.
- A20. Professional judgment needs to be appropriately documented in accordance with the requirements of this proposed ISRE.

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