AUSTRALIAN AUDITING STANDARDS

FACT SHEET FOR MANAGEMENT, DIRECTORS AND AUDIT COMMITTEE MEMBERS

ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity

OBJECTIVE

The objective of this fact sheet is to explain the auditor's role in the review of an interim financial report, most frequently in the context of a review of the half-year financial report for a disclosing entity, under the AUASB Auditing Standard on Review Engagements (ASRE) 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity.* ASRE 2410 is not applicable to a practitioner who is not the auditor of the entity, but who is engaged to perform a review of an interim financial report. However, content applicable to a recently appointed auditor, who has not yet performed an audit of the annual financial report, is included. This Fact Sheet is particularly long because ASRE 2410 is a self-contained Standard dealing with every aspect of review engagements. Audit engagements, on the other hand, are covered in the ASA series of AUASB Standards.

APPLICATION

Financial reporting periods commencing on or after 1 July 2006.

DEFINITION

Interim financial report – a financial report that is prepared in accordance with an applicable financial reporting framework for a period that is shorter than the entity's financial year.

ASRE 2410 is applicable to interim financial report reviews but only for appointed auditors. Why?

Through performing the audit of the annual financial report, the auditor obtains an understanding of the entity and its environment, including its internal control. When the auditor is engaged to review the interim financial report, the auditor needs to update this understanding through enquiries made in the course of the review, to assist in focusing the enquiries to be made and the analytical and other review procedures to be applied. A practitioner who is engaged to perform a review of an interim financial report, and who is not the auditor of the entity, does not have the same understanding of the entity and its environment, including its internal control, as an auditor of the entity.

GENERAL PRINCIPLES OF A REVIEW OF AN INTERIM FINANCIAL REPORT

- Auditors are required under ASRE 2410 to comply with the ethical requirements of a professional accounting body, including for CPAs of CPA Australia.
- Auditors are required to comply with AUASB Standard ASA 220 *Quality Control for Audits of Historical Financial Information* in implementing quality control procedures that are applicable to the individual engagement.
- Under ASRE 2410 the auditor is required to plan and perform the review by exercising professional judgement and with an attitude of professional scepticism, recognising that circumstances may exist that cause the interim financial report to require a material adjustment for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework. Generally in Australia this framework comprises the AASB Accounting Standards. An attitude of professional scepticism means that the auditor makes a critical assessment, with a questioning mind, of the validity of evidence obtained and is alert to evidence that contradicts or brings into question the reliability of documents or representations by management.

OBJECTIVE OF AN ENGAGEMENT TO REVIEW AN INTERIM FINANCIAL REPORT

The objective of an engagement to review an interim financial report is to enable the auditor to express a conclusion whether, on the basis of the review, anything has come to the auditor's attention that causes the auditor to believe that the interim financial report is not prepared, in all material respects, in accordance with an applicable financial reporting framework. The auditor needs to make enquiries, and perform analytical and other review procedures in order to reduce to a limited level the risk of expressing an inappropriate conclusion when the interim financial report is materially misstated.

CPA AUSTRALIA

ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity

A REVIEW AND AUDIT ENGAGEMENT COMPARED

The objective of a review of an interim financial report differs significantly from that of an audit. A review, in contrast to an audit, is not designed to obtain reasonable assurance that the interim financial report is free from material misstatement. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review may bring significant matters affecting the interim financial report to the auditor's attention, but it does not provide all of the evidence that would be required in an audit.

AGREEING THE TERMS OF THE ENGAGEMENT

Under ASRE 2410 the auditor is required to agree the terms of the engagement and to record them in writing and forward them to the entity. When the review engagement is undertaken pursuant to legislation, the minimum applicable terms are those contained in the legislation. Such a communication helps to avoid misunderstandings regarding the nature of the engagement and, in particular:

- the objective and scope of the review,
- the responsibilities of those charged with governance,
- the extent of the auditor's responsibilities,
- the assurance obtained, and
- the nature and form of the report.

The communication ordinarily covers the following matters:

- the objective of a review of an interim financial report;
- the scope of the review;
- the responsibilities of those charged with governance for:
- the interim financial report;
- establishing and maintaining effective internal control relevant to the preparation of the interim financial report; and
- making all financial records and related information available to the auditor;
- agreement from those charged with governance:
  - to provide written representations to the auditor to confirm representations made orally during the review, as well as representations that are implicit in the entity's records; and
  - that where any document containing the interim financial report indicates that the interim financial report has been reviewed by the entity's auditor, the review report also will be included in the document; and
  - the anticipated form and content of the report to be issued, including the identity of the addressee of the report.

An illustrative engagement letter is set out in Appendix 1 to ASRE 2410. The terms of engagement to review an interim financial report may be combined with the terms to audit the annual financial report.

PROCEDURES FOR A REVIEW OF AN INTERIM FINANCIAL REPORT

Understanding the entity and its environment, including its internal control

- Under ASRE 2410 is auditor is required to obtain an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both the annual and interim financial reports, sufficient to plan and conduct the engagement so as to be able to:
  - identify the types of potential material misstatements and consider the likelihood of their occurrence; and
  - select the enquiries, analytical and other review procedures that will provide the auditor with a basis for reporting.
- The auditor who has audited the entity's financial report for one or more annual periods has obtained an understanding of the entity and its environment, including its internal control, as it relates to the preparation of the annual financial report sufficient to conduct the audit. In planning a review of an interim financial report, the auditor needs to update this understanding and to obtain a sufficient understanding of internal control as it relates to the preparation of the interim financial report, since it may differ from internal control as it relates to the annual financial report.

The procedures performed by the auditor to update the understanding of the entity and its environment, including its internal control, ordinarily include:

- reading:
  - the documentation, to the extent necessary, of the preceding year's audit and reviews of prior interim periods of the current year and corresponding interim periods of the prior year, to enable identification of matters that may affect the current-period interim financial report;
  - the most recent annual and comparable prior period interim financial report;

- considering:
  - significant risks, including the risk of management override of controls, that were identified in the audit of the prior year's financial report;
  - materiality with reference to the applicable financial reporting framework as it relates to the interim financial report to assist in determining the nature and extent of the procedures to be performed and evaluating the effect of misstatements;
  - the nature of any corrected material misstatements and any identified uncorrected immaterial misstatements in the prior year's financial report;
  - significant financial accounting and reporting matters that may be of continuing significance such as material weaknesses in internal control;
  - results of any audit procedures performed with respect to the current year's financial report;
  - considering the results of any internal audit performed and the subsequent actions taken by management;
- enquiring of management:
  - about the results of management's assessment of the risk that the interim financial report may be materially misstated as a result of fraud;
  - about the effect of changes in the entity's business activities;
  - about any significant changes in internal control and the potential effect of any such changes on the preparation of the interim financial report; and
  - of the process by which the interim financial report has been prepared and the reliability of the underlying accounting records to which the interim financial report is agreed or reconciled.

The auditor needs to determine the nature of the review procedures, if any, to be performed for components of the report and, where applicable, communicate these matters to other auditors involved in the review. Factors considered ordinarily include the materiality of, and risk of misstatement in, the interim financial report components, and the auditor's understanding of the extent to which internal control over the preparation of such reports is centralised or decentralised.

WHAT IF THE AUDITOR IS NEWLY APPOINTED?

- Under ASRE 2410, in order to plan and conduct a review of an interim financial report, a recently appointed auditor, who has not yet performed an audit of the annual financial report, is required to obtain an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both the annual and interim financial reports. This understanding enables the auditor to focus the enquiries made, and the analytical and other review procedures applied in performing a review of the interim financial report.
- As part of obtaining this understanding, ordinarily the auditor makes enquiries of the predecessor auditor and, where practicable, reviews the predecessor auditor's documentation for the preceding annual audit and for any prior interim periods in the current year that have been reviewed by the predecessor auditor. In doing so, the auditor considers ordinarily the nature of any corrected misstatements, and any uncorrected misstatements aggregated by the auditor, any significant risks, including the risk of management override of controls, and significant accounting and any reporting matters that may be of continuing significance, such as material weaknesses in internal control.

MATERIALITY CONSIDERATIONS

- Under ASRE 2410 the auditor is required to consider materiality, using professional judgement, when determining the nature, timing and extent of review procedures; and evaluating the effect of misstatements. The auditor needs to use professional judgement and consider qualitative and quantitative factors in determining materiality.
- Ordinarily the auditor's consideration of materiality for a review of an interim financial report is based on the interim period financial data and accordingly materiality based on interim period financial data may be less than materiality for annual financial data.
- The auditor's consideration of materiality, in evaluating the effects of misstatements, is a matter of professional judgement and is affected by the auditor's perception of the financial information needs of users of the interim financial report.
- Accounting Standard AASB 1031 *Materiality* provides a frame of reference to the auditor when determining materiality for planning and performing the review. AUASB Auditing Standard ASA 320 *Materiality and Audit Adjustments* provides more information on the auditor's perspective in relation to materiality.

ENQUIRIES, ANALYTICAL AND OTHER REVIEW PROCEDURES

- Under ASA 2410 the auditor is required to make enquiries, primarily of persons responsible for financial and accounting matters, and perform analytical and other review procedures to enable the auditor to conclude whether, on the basis of the procedures performed, anything has come to the auditor's attention that causes the auditor to believe that the interim financial report is not prepared, in all material respects, in accordance with the applicable financial reporting framework.
- Procedures for performing a review of an interim financial report ordinarily are limited to making enquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures, rather than corroborating information obtained concerning matters relating to the interim financial report. The auditor's understanding of the entity and its environment, including its internal control, the results of the risk assessments relating to the preceding audit and the auditor's consideration of materiality as it relates to the interim financial report, affect the nature and extent of the enquiries made, and analytical and other review procedures applied.

- The auditor ordinarily performs the following procedures:
  - Reading the minutes of the meetings of shareholders, those charged with governance and other appropriate committees to identify matters that may affect the interim financial report, and enquiring about matters dealt with at meetings for which minutes are not available that may affect the interim financial report.
  - Considering the effect, if any, of matters giving rise to a modification of the audit or review report, accounting adjustments or unadjusted misstatements, at the time of the previous audit or reviews.
  - Communicating, where appropriate, with other auditors who are performing a review of the interim financial report of the entity's significant components.
  - Enquiring of members of management responsible for financial and accounting matters, and others as appropriate, about the following:
  - whether the interim financial report has been prepared and presented in accordance with the applicable financial reporting framework;
  - whether there have been any changes in accounting principles or in the methods of applying them;
  - whether any new transactions have necessitated the application of a new accounting principle;
  - whether the interim financial report contains any known uncorrected misstatements;
  - unusual or complex situations that may have affected the interim financial report, such as a business combination or disposal of a segment of the business;
  - significant assumptions that are relevant to the fair value measurement or disclosures and management's intention and ability to carry out specific courses of action on behalf of the entity;
  - whether related party transactions have been appropriately accounted for and disclosed in the interim financial report;
  - significant changes in commitments and contractual obligations;
  - significant changes in contingent assets and contingent liabilities including litigation or claims;
  - compliance with debt covenants;
  - matters about which questions have arisen in the course of applying the review procedures;
  - significant transactions occurring in the last several days of the interim period or the first several days of the next interim period;
  - knowledge of any fraud or suspected fraud affecting the entity involving:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the interim financial report; and
  - knowledge of any allegations of fraud, or suspected fraud, affecting the entity's interim financial information communicated by employees, former employees, analysts, regulators or others; and
  - knowledge of any actual or possible non-compliance with laws and regulations that could have a material effect on the interim financial report.
  - Applying analytical procedures to the interim financial report designed to identify relationships and individual items that appear to be unusual and that may reflect a material misstatement in the interim financial report. Analytical procedures may include ratio analysis and statistical techniques such as trend analysis or regression analysis and may be performed manually or with the use of computer-assisted auditing techniques. Appendix 2 to ASRE 2410 contains examples of analytical procedures the auditor may consider when performing a review of an interim financial report.
  - Reading the interim financial report and considering whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial report is not in accordance with the applicable financial reporting framework.
- The auditor may perform many of the review procedures before or simultaneously with the entity's preparation of the interim financial report. Performing some of the review procedures earlier in the interim period permits also early identification and consideration of significant accounting matters affecting the interim financial report.
- For convenience and efficiency, the auditor may decide to perform certain audit procedures concurrently with the review of the interim financial report. The auditor may decide also to perform, at the time of the interim review, auditing procedures that would need to be performed for the purpose of the audit of the annual financial report, for example, performing auditing procedures on:
  - significant or unusual transactions that occurred during the period, such as business combinations, restructurings, or significant revenue transactions, or
  - opening balances (when applicable).
- A review of an interim financial report ordinarily does not require corroborating the enquiries about litigation or claims. It is, therefore, ordinarily not necessary to send an enquiry letter to the entity's lawyer. Direct communication with the entity's lawyer with respect to litigation or claims, or alternative procedures, may, however, be appropriate if a matter comes to the auditor's attention that causes the auditor to question whether the interim financial report is in accordance with the applicable financial reporting framework.
- Under ASRE 2410 the auditor is required to obtain evidence that the interim financial report agrees or reconciles with the underlying accounting records. This may be achieved by tracing the interim financial report to:
  - the accounting records, such as the general ledger, or a consolidating schedule that agrees or reconciles with the accounting records; and
  - other supporting data in the entity's records as necessary.

- Under ASRE 2410 the auditor is required to enquire whether management has identified all events up to the date of the review report that may require adjustment to or disclosure in the interim financial report. The auditor, however, need not perform procedures to identify events occurring after the date of the review report.
- Under ASRE 2410 the auditor is required to enquire whether those charged with governance have changed their assessment of the entity's ability to continue as a going concern. When the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor is required to:
  - enquire of those charged with governance as to their plans for future actions based on their going concern assessment, the feasibility of these plans, and whether they believe that the outcome of these plans will improve the situation; and
  - consider the adequacy of the disclosure about such matters in the interim financial report.
- Events or conditions which may cast significant doubt on the entity's ability to continue as a going concern may have existed at the date of the annual financial report or may be identified as a result of enquiries of management or in the course of performing other review procedures. When such events or conditions come to the auditor's attention, the auditor needs to enquire of those charged with governance as to their plans for future action, such as their plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital.
  - The auditor needs to enquire also as to the feasibility of the plans of those charged with governance and whether they believe that the outcome of these plans will improve the situation. Ordinarily, the auditor considers, based on procedures performed, whether it is necessary to corroborate the feasibility of the plans of those charged with governance and whether the outcome of these plans will improve the situation.
- Under ASRE 2410 when a matter comes to the auditor's attention that leads the auditor to question whether a material adjustment should be made for the interim financial report to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor is required to make additional enquiries or perform other procedures to enable the auditor to express a conclusion in the review report.
  - For example, if the auditor's review procedures lead the auditor to question whether a significant sales transaction is recorded in accordance with the applicable financial reporting framework, the auditor performs additional procedures sufficient to resolve the auditor's questions, such as discussing the terms of the transaction with senior marketing and accounting personnel or reading the sales contract.

Comparatives – First Interim Report

- Under ASRE 2410 when comparative information is included for the first time in an interim financial report, an auditor is required to perform similar procedures on the comparative information as applied to the current period interim financial report.
- When comparative information is included in the first interim financial report and the auditor is unable to obtain sufficient appropriate review evidence to achieve the review objective, a limitation on the scope of the review exists and so the auditor needs to modify the review report. In such cases, ordinarily an auditor encourages clear disclosure, in the interim financial report, that the auditor has been unable to review the comparatives. An example of a modified review report is included in Appendix 4 to ASRE 2410.
- When comparative information is included in the first interim financial report and the auditor believes a material adjustment should be made to the interim financial report, again under ASRE 2410, the auditor needs to modify the review report. However, when an entity has come into existence only within the first interim period, comparative information will not be provided in the first interim financial report and no modified review report is required.

EVALUATION OF MISSTATEMENTS

- Under ASRE 2410 the auditor is required to evaluate, individually and in the aggregate, whether uncorrected misstatements that have come to the auditor's attention are material to the interim financial report. It is important to understand that a review of an interim financial report, in contrast to an audit engagement, is not designed to obtain reasonable assurance that the interim financial report is free from material misstatement. However, under ASRE 2410, misstatements which come to the auditor's attention, including inadequate disclosures, need to be evaluated individually and in the aggregate to determine whether a material adjustment is required to be made to the interim financial report for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.
- Under ASRE 2410 the auditor needs to exercise professional judgement in evaluating the materiality of any misstatements that the entity has not corrected. Ordinarily, the auditor considers matters such as the nature, cause and amount of the misstatements, whether the misstatements originated in the preceding year or interim period of the current year, and the potential effect of the misstatements on future interim or annual periods. The auditor may designate an amount below which misstatements need not be aggregated, because the auditor expects that the aggregation of such amounts clearly would not have a material effect on the interim financial report. In so doing, the auditor needs to consider the fact that the determination of materiality involves quantitative as well as qualitative considerations and that misstatements of a relatively small amount could nevertheless have a material effect on the interim financial report.

ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity

MANAGEMENT REPRESENTATIONS

- Under ASRE 2410 the auditor is required to endeavour to obtain written representation from members of management that:
  - they acknowledge their responsibility for the design and implementation of internal control to prevent and detect fraud and error;
  - the interim financial report is prepared and presented in accordance with the applicable financial reporting framework;
  - they believe the effect of those uncorrected misstatements aggregated by the auditor during the review are immaterial, both individually and in the aggregate, to the interim financial report taken as a whole. A summary of such items is included in or attached to the written representations;
  - they have disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to them that may have affected the entity;
  - they have disclosed to the auditor the results of their assessment of the risk that the interim financial report may be materially misstated as a result of fraud;
  - they have disclosed to the auditor all known actual or possible non-compliance with laws and regulations the effects of which are to be considered when preparing the interim financial report; and
  - they have disclosed to the auditor all significant events that have occurred subsequent to the balance sheet date and through to the date of the review report that may require adjustment to or disclosure in the interim financial report.
- Under ASRE 2410 the auditor needs to endeavour to obtain additional representations as are appropriate to matters specific to the entity's business or industry. An illustrative management representation letter is set out in Appendix 1 to ASRE 2410.
- If those charged with governance refuse to provide a written representation that the auditor considers necessary, this constitutes a limitation on the scope of the auditor's work and the auditor is required under ASRE 2410 to express a qualified conclusion or a disclaimer of conclusion.

THE AUDITOR'S RESPONSIBILITY FOR ACCOMPANYING INFORMATION

- Under ASRE 2410 the auditor is required to read the other information that accompanies the interim financial report to consider whether any such information is materially inconsistent with the interim financial report.
- If the auditor identifies a material inconsistency, the auditor needs to consider whether the interim financial report or the other information needs to be amended. If an amendment is necessary in the interim financial report and those charged with governance refuse to make the amendment, the auditor needs to consider the implications for the review report.
- If an amendment is necessary in the other information and those charged with governance refuse to make the amendment, the auditor may, for example, consider including in the review report an additional paragraph (emphasis of matter) describing the material inconsistency or taking other actions, such as withholding the issuance of the review report or withdrawing from the engagement. For example, those charged with governance may present alternative measures of earnings that more positively portray financial performance than the interim financial report, and such alternative measures are given excessive prominence, are not clearly defined, or not clearly reconciled to the interim financial report such that they are confusing and potentially misleading.
- Under ASRE 2410 if a matter comes to the auditor's attention that causes the auditor to believe that the other information appears to include a material misstatement of fact, the auditor is required to discuss the matter with the entity's management.
- While reading the other information for the purpose of identifying material inconsistencies, an apparent material misstatement of fact may come to the auditor's attention. When discussing the matter with the entity's management, ordinarily the auditor considers the validity of the other information and management's responses to the auditor's enquiries, whether valid differences of judgement or opinion exist and whether to request management to consult with a qualified third party to resolve the apparent misstatement of fact.
- If an amendment is necessary to correct a material misstatement of fact and management refuses to make the amendment, ordinarily the auditor considers taking further action as appropriate, such as notifying those charged with governance and, if necessary, obtaining legal advice.

COMMUNICATION

- Under ASRE 2410 when, as a result of performing the review of interim financial report, a matter comes to the auditor's attention that causes the auditor to believe that it is necessary to make a material adjustment to the interim financial report for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor is required to communicate this matter as soon as practicable to the appropriate level of management. When, in the auditor's judgement, management does not respond appropriately within a reasonable period of time, the auditor shall inform those charged with governance.
- Such communications are made as soon as practicable, either orally or in writing. The auditor's decision whether to communicate orally or in writing ordinarily is affected by factors such as the nature, sensitivity and significance of the matter to be communicated and the timing of the communications. If the information is communicated orally, the auditor needs to document the communication.
- When, in the auditor's judgement, those charged with governance do not respond appropriately within a reasonable period of time, the auditor is required under ASRE 2410 to consider:
  - whether to modify the report; or
  - the possibility of withdrawing from the engagement; and
  - the possibility of resigning from the appointment to audit the annual financial report.

ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity

- When, as a result of performing the review of interim financial report, a matter comes to the auditor's attention that causes the auditor to believe in the existence of fraud or non-compliance by the entity with laws and regulations the auditor is required under ASRE 2410 to communicate the matter as soon as practicable to those charged with governance and to consider the implications for the review. The determination of which level of management may also be informed is affected by the likelihood of collusion or the involvement of a member of management.
- The auditor is required under ASRE 2410 to communicate relevant matters of governance interest arising from the review of the interim financial report to those charged with governance. As a result of performing the review of the interim financial report, the auditor may become aware of matters that in the opinion of the auditor are both important and relevant to those charged with governance in overseeing the financial reporting and disclosure process.

REPORTING THE NATURE, EXTENT AND RESULTS OF THE REVIEW OF AN INTERIM FINANCIAL REPORT

- Under ASRE 2410 the auditor is required to issue a written report with specific headings and content. In some cases, law or regulation governing the review of an interim financial report may prescribe wording for the auditor's conclusion that is different from the wording described in ASRE 2410. Although the auditor may be obliged to use the prescribed wording, the auditor's responsibilities under ASRE 2410 remain the same. Illustrative review reports are set out in Appendices 3 and 4 to ASRE 2410.

DEPARTURE FROM THE APPLICABLE FINANCIAL REPORTING FRAMEWORK

- Under ASRE 2410 the auditor is required to express a qualified or adverse conclusion when a matter has come to the auditor's attention that causes the auditor to believe that a material adjustment should be made to the interim financial report for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework. The auditor shall include a basis for modification paragraph in the report, that describes the nature of the departure and, if practicable, state the effects on the interim financial report. If the effects or possible effects are incapable of being measured reliably, a statement to that effect and the reasons therefore are required to be included in the basis for modification paragraph. The conclusion paragraph is required to be headed 'Qualified Conclusion' or "Adverse Conclusion' whichever is relevant.
- If matters have come to the auditor's attention that cause the auditor to believe that the interim financial report is or may be materially affected by a departure from the applicable financial reporting framework, and those charged with governance do not correct the interim financial report, under ASRE 2410 the auditor needs to modify the review report. If the information that the auditor believes is necessary for adequate disclosure is not included in the interim financial report, the auditor needs to modify the review report and, if practicable, include the necessary information in the review report. Illustrative review reports with a qualified conclusion are set out in Appendix 4 to ASRE 2410.
- When the effect of the departure is so material and pervasive to the interim financial report that the auditor concludes a qualified conclusion is not adequate to disclose the misleading or incomplete nature of the interim financial report, the auditor is required under ASRE 2410 to express an adverse conclusion. An illustrative review report with an adverse conclusion is set out in Appendix 4 to ASRE 2410.

LIMITATION ON SCOPE

Ordinarily a limitation on scope prevents the auditor from completing the review. When the auditor is unable to complete the review, the auditor is required under ASRE 2410 to communicate, in writing, to the appropriate level of management and to those charged with governance the reason why the review cannot be completed, and consider whether it is appropriate to issue a review report.

Limitation on scope imposed by management

- Unless required by law or regulation, an auditor is required under ASRE 2410 to not accept an engagement to review an interim financial report when management has imposed a limitation on the scope of the auditor's review. The auditor needs to refuse to accept an engagement to review an interim financial report if the auditor's preliminary knowledge of the engagement circumstances indicates that the auditor would be unable to complete the review because there will be a limitation on the scope of the auditor's review imposed by management of the entity.
- If, after accepting the engagement, management imposes a limitation on the scope of the review, the auditor is required under ASRE 2410 to request management to remove the limitation. If management refuses, the auditor is required to communicate, in writing, to the appropriate level of management and those charged with governance, the reason(s) why the review cannot be completed. Nevertheless, if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment to the interim financial report is necessary for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor needs to communicate such matters to the appropriate level of management.
- If management refuses the auditor's request to remove a limitation that has been imposed on the scope of the review, but there is a legal or regulatory requirement for the auditor to issue a report, the auditor Is required under ASRE 2410 to issue a disclaimer of conclusion or qualified conclusion report containing the reason(s) why the review cannot be completed.
- The auditor needs to consider the legal and regulatory responsibilities, including whether there is a legal requirement for the auditor to issue a report. If there is such a requirement, Standard, the auditor needs to disclaim a conclusion, and provide in the review report the reason why the review cannot be completed. However, if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment to the interim financial report is necessary for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor needs to communicate such a matter in the report.

Other limitations on scope not imposed by management

- When the auditor concludes that an unqualified conclusion cannot be expressed, the auditor is required under ASRE 2410 to express a qualified conclusion when in rare circumstances there is a limitation on the scope of an auditor's work, that is confined to one or more specific matters that, while material, are not in the auditor's judgement pervasive to the interim financial report. A qualified conclusion is required to be expressed as being "except for" the effects of the matter to which the qualification relates. The conclusion paragraph is required to be headed "Qualified Conclusion".
- A limitation on scope may occur due to circumstances other than a limitation on scope imposed by those charged with governance. In such circumstances, the auditor is ordinarily unable to complete the review and express a conclusion. There may be, however, some rare circumstances where the limitation on the scope of the auditor's work is clearly confined to one or more specific matters that, while material, are not in the auditor's judgement pervasive to the interim financial report. In such circumstances, the auditor needs to modify the review report by indicating that, except for the matter which is described in an explanatory paragraph to the review report, the review was conducted in accordance with ASRE 2410 and by qualifying the conclusion. Illustrative review reports with a qualified conclusion are set out in Appendix 4 to ASRE 2410.
- The auditor may have expressed a qualified opinion on the audit of the latest annual financial report because of a limitation on the scope of that audit. The auditor needs to consider whether that limitation on scope still exists and, if so, the implications for the review report.

GOING CONCERN AND SIGNIFICANT UNCERTAINTIES

- In certain circumstances, an emphasis of matter paragraph may be added to a review report, without affecting the auditor's conclusion, to highlight a matter that is included in a note to the interim financial report that more extensively discusses the matter.
- If adequate disclosure is made in the interim financial report, the auditor is required under ASRE 2410 to add an emphasis of matter paragraph to the review report to highlight a material uncertainty relating to an event or condition that may cast significant doubt on the entity's ability to continue as a going concern.
- The auditor may have modified a prior audit or review report by adding an emphasis of matter paragraph to highlight a material uncertainty relating to an event or condition that may cast significant doubt on the entity's ability to continue as a going concern. If the material uncertainty still exists and adequate disclosure is made in the interim financial report, the auditor needs to modify the review report on the current interim financial report by adding a paragraph to highlight the continued material uncertainty.
- If, as a result of enquiries or other review procedures, a material uncertainty relating to an event or condition comes to the auditor's attention that may cast significant doubt on the entity's ability to continue as a going concern, and adequate disclosure is made in the interim financial report, the auditor needs to modify the review report by adding an emphasis of matter paragraph.
- If a material uncertainty that casts significant doubt about the entity's ability to continue as a going concern is not adequately disclosed in the interim financial report, the auditor is required under ASRE 2410 to express a qualified or adverse conclusion, as appropriate. The report is required to include specific reference to the fact that there is such a material uncertainty.
- The auditor is required under ASRE 2410 to modify the review report by adding a paragraph to highlight a significant uncertainty (other than a going concern problem) that is adequately disclosed in the interim financial report, that came to the auditor's attention, the resolution of which is dependent upon future events and which may materially affect the interim financial report.
- If a significant uncertainty (other than a going concern problem) is not adequately disclosed in the interim financial report, the auditor is required under ASRE 2410 to express a qualified or adverse conclusion, as appropriate. The report is required to include specific reference to the fact that there is such a significant uncertainty.

OTHER CONSIDERATIONS

- The terms of the engagement include agreement by those charged with governance that where any document containing an interim financial report indicates that the report has been reviewed by the entity's auditor, the review report will be also included in the document. If this is not the case ordinarily the auditor considers seeking legal advice to assist in determining the appropriate course of action.
- If the auditor has issued a modified review report and those charged with governance issue the interim financial report without including the modified review report in the document containing the interim financial report, ordinarily the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances, and the possibility of resigning from the appointment to audit the annual financial report.
- An interim financial report consisting of a summarised financial report may present an explanation of the events and changes that are significant to an understanding of the changes in the financial position and performance of the entity since the annual reporting date. This is because it is presumed that the users of the interim financial report will have access to the latest audited financial report. In other circumstances, ordinarily the auditor discusses with management the need for the interim financial report to include a statement that it is to be read in conjunction with the latest audited financial report. In the absence of such a statement, ordinarily the auditor considers whether, without a reference to the latest audited financial report, the interim financial report is misleading in the circumstances and the implications for the review report.

ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity

Acknowledgements

CPA Australia wishes to acknowledge the assistance of the Monash University Centre for Research in Accounting and Finance, in the production of the original set of fact sheets.