

Audit & Assurance Alert

CANADIAN STANDARD ON REVIEW ENGAGEMENTS (CSRE)

JUNE 2016

STANDARD DISCUSSED

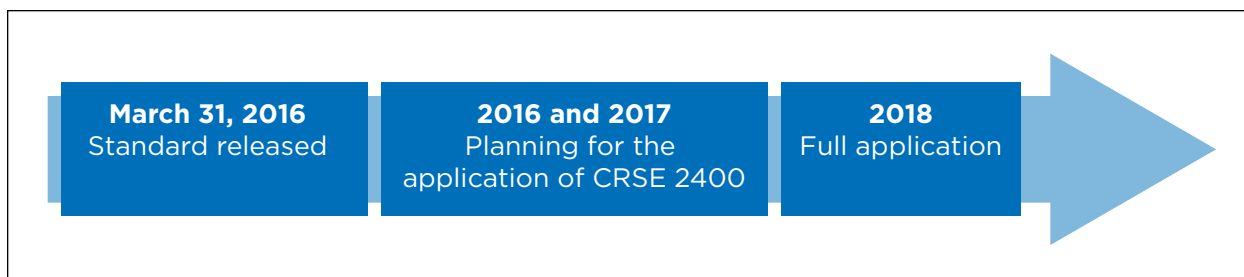
CSRE 2400, *Engagements to Review Historical Financial Statements*

This CPA Canada **Audit & Assurance Alert** raises awareness about Canadian Standard for Review Engagements (CSRE) 2400, *Engagements to Review Historical Financial Statements*, issued on March 31, 2016. This new standard includes requirements and application guidance for review engagements of annual or interim¹ historical financial statements. CSRE 2400 also applies to reviews of other historical financial information, adapted as necessary.

CSRE 2400 does not apply when the auditor is engaged to review interim financial statements that fall under Section 7060, *Auditor Review of Interim Financial Statements*. Section 7060 is the appropriate standard when performing, as the auditor of an entity, a review of the entity's interim financial statements for regulatory purposes, as described in Section 7060.

¹ An exception arises when the auditor of an entity reviews its interim financial statements in the circumstances described in Section 7060, *Auditor Review of Interim Financial Statements*

Timeline—When Will This New Standard Affect You?



Effective Date: CSRE 2400 is effective for reviews of annual and interim financial statements (except when the engagement falls under the scope of Section 7060) for periods ending on or after **December 14, 2017**. To reduce the likelihood users may be confused by different types of review engagement reports issued for the same reporting period, early application of CSRE 2400 is **not permitted**.

Since early application is not permitted, CSRE 2400 is not applicable to review engagements for any **interim** periods that end before December 14, 2017.

Effective dates for application of CSRE 2400 can be illustrated as follows:

- CSRE 2400 is applicable for the years ended December 31, 2017 because the period ends after the effective date of December 14, 2017.
- CSRE 2400 is not applicable for an interim period ended March 31, 2017 because the period does not end after the effective date of December 14, 2017 (even though the annual financial statements may fall within the scope of CSRE 2400).
- CSRE 2400 is applicable for an interim period ending on or after December 31, 2017 because the period ends after the effective date of December 14, 2017.

Implications to Your Practice

The implications for your practice will vary, but some change is inevitable. For example, a new review engagement report will be issued, new engagement letters will need to be obtained and the file documentation will change as a result of the revised requirements. However, the implementation of CSRE 2400 may be used as an opportunity to assess the efficiency of previous review engagements. You can take a fresh look at the working paper files and determine whether all procedures completed are necessary to meet the requirements in CSRE 2400. A brief summary and commentary regarding some of the key elements of CSRE 2400 that may impact your practice are included in [Appendix 1](#) of this Alert.

For a discussion on what you can do **now**, see the “[What can you do to be ready for this new standard?](#)” section in this Alert.

Which Standards Does CSRE 2400 Replace?

CSRE 2400 replaces:

- Section 8100, *General Review Standards*, in part, for reviews of historical financial statements and other historical financial information
- Section 8200, *Public Accountant's Review of Financial Statements*
- Section 8500, *Reviews of Financial Information Other Than Financial Statements*
- ASSURANCE AND RELATED SERVICES GUIDELINE AuG-20, *Performance of a Review of Financial Statements in Accordance with Sections 8100 and 8200*
- ASSURANCE AND RELATED SERVICES GUIDELINE AuG-47, *Dating the Review Engagement Report on Financial Statements*.

Limited Assurance and Plausibility

The term “limited assurance” is included in CSRE 2400 and defined as follows:

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 CSRE. The combination of the nature, timing and extent of evidence gathering procedures is at least sufficient for the practitioner to obtain a meaningful level of assurance. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the financial statements.

(See paragraph 15(j) of CSRE 2400)

The definition of limited assurance explains its relationship to reasonable assurance and, consistent with the concept of plausibility in the 8000 series, highlights that the level of assurance obtained in a review engagement has to be meaningful (see paragraph 12(a) of Basis for Conclusions for CSRE 2400).

Summary of CSRE 2400

Under CSRE 2400, the components of an engagement to review historical financial statements can be summarized as follows:



The boxes on the outside are the matters that are continuous or relevant to the whole engagement:

- ethical requirements and quality control
- communication with management and others
- professional skepticism and professional judgment
- documentation

What Can You Do to Be Ready for This New Standard?

- Read CSRE 2400, *Engagements to Review Historical Financial Statements*. CSRE 2400 has the following requirement: “The practitioner shall have an understanding of the entire text of this CSRE, including its application and other explanatory material, to understand its objectives and to apply its requirements properly” (see paragraphs 16 and A17 of CRSE 2400).
- Read the [Basis for Conclusion](#).
- Train staff and partners on CSRE 2400 and consider open discussions within and across offices, to ensure consistent application.
- Develop a timetable for those engagements that will be performed under CSRE 2400.
- Discuss CSRE 2400 with your clients, and encourage an outreach to relevant third parties, so all will understand any new procedures, the new review engagement report, and other communications.
- Consider the implications of CSRE 2400 on engagement planning, such as timing, resources, etc.
- Prepare amendments to engagement letters, representation letters and other communications.
- Adapt any methodology to be compliant with CSRE 2400.

In addition, consider opportunities for improving efficiencies as you take a new look at all review engagements.

What Additional Resources Are Available to Help Me?

1. CPA Canada’s *Audit & Assurance Alert* with a [comparison between CSRE 2400 and the 8000 Series](#)
2. [Basis for Conclusions](#), including a comparison between CSRE 2400 and ISRE 2400 (Revised)
3. CPA Canada’s Guide to Review Engagements is currently under development and is expected to be issued in 2016. This Guide is based on the [International Federation of Accountants \(IFAC\) Guide to Review Engagements](#) which is available now; IFAC’s Guide to Review Engagements is based on the International standard (ISRE 2400 (Revised)) so familiarity with the differences between ISRE 2400 (Revised) and CSRE 2400 is important.
4. Courses available through your provincial bodies (ordres)

Watch for the Fall 2016 release of the Canadian Professional Engagement Manual (C-PEM) which will include review engagement checklists for CSRE 2400 for use in 2018.

Appendix 1—Selected CSRE 2400 Requirements

The following chart provides a brief summary and commentary regarding some of the key elements of CSRE 2400:

CSRE 2400 Requirement	Commentary
Engagement Level Quality Control	
<p>Requirement for the engagement partner to possess competence in assurance skills and techniques, and competence in financial reporting, appropriate to the engagement circumstances.</p> <p>(see paragraphs 22 and A29 of CSRE 2400 and paragraphs 30-31 of CSQC 1)</p>	<p>The practitioner is required to possess assurance skills and techniques, but they are not required to be providing audit services.</p> <p>Assurance skills include competence in the design and application of additional procedures when needed (see paragraph A29 of CSRE 2400 for general assurance skills).</p> <p>The firm's quality control system will include a monitoring process. The engagement partner must consider whether the results of the firm's monitoring process may affect the particular review engagement (see paragraph 26 of CSRE 2400).</p>
Acceptance and Continuance of Client Relationships	
<p>Requirement to not accept a review engagement if certain factors are present (see paragraph 27 of CSRE 2400). One factor is that the practitioner shall not accept a review engagement if they are not satisfied that there is a rational purpose for the engagement and that a review engagement would be appropriate in the circumstances (see paragraph 27(a) of CSRE 2400).</p> <p>In addition, quality control standards (see paragraph 26 of CSQC 1) along with preconditions for accepting the engagement (see paragraph 28 of CSRE 2400) must be met.</p>	<p>Paragraph A38 of CSRE 2400 provides examples of when it may be unlikely that there is a "rational purpose" for the engagement. For example, it may be unlikely that there is a rational purpose if there is a significant limitation on the scope of the practitioner's work.</p> <p>Paragraph A39 of CSRE 2400 provides examples of when a review engagement is not appropriate. For example, depending on the circumstances, the practitioner may believe that performance of an audit engagement would be more appropriate than a review.</p>
Communication with Management and Those Charged with Governance (TCWG)	
<p>Requirement to communicate with management or TCWG all matters concerning the engagement that are judged to be of sufficient importance to merit management's or TCWG's attention. Communication is not limited to any specific time in the engagement, but it should be on a timely basis.</p> <p>(see paragraphs 40 and A65-A71 of CSRE 2400)</p>	<p>This communication can occur during the engagement acceptance, performance, conclusion and reporting phases.</p> <p>There is no explicit requirement to communicate in a formal written report. However, if the communication is not in writing, any oral communication, such as discussions in a year-end meeting, must be documented.</p>

CSRE 2400 Requirement

Commentary

Performing the Engagement

Requirement to determine materiality.

Requirement to revise materiality in the event of becoming aware of information that would have caused the practitioner to have determined a different amount initially.

(see paragraphs 41-42 and A72-A84 of CSRE 2400)

Materiality is assessed over the financial statements as a whole and will have an effect on the review engagement procedures to be performed during the engagement.

Requirement to identify areas in the financial statements where material misstatements are likely to arise based on the understanding of the entity and its environment.

(see paragraphs 43-45, A85-A90, A99 and A101 of CSRE 2400)

The understanding establishes a frame of reference within which the practitioner plans and performs the review engagement, and exercises professional judgment throughout the engagement. Specifically, the understanding needs to be sufficient for the practitioner to be able to identify areas in the financial statements where material misstatements are likely to arise, to inform the practitioner's approach to designing and performing procedures to address those areas (see paragraph A87 of CSRE 2400).

Requirement to design and perform inquiry and analytical procedures to address all material financial statement items, including disclosures, **and** focus on addressing areas in the financial statements where material misstatements are likely to arise.

(see paragraphs 46, A91-A95, A99 and A101 of CSRE 2400)

This requirement results in the design and performance of procedures specific to the particular circumstances of the engagement. Procedures may not be considered necessary in some circumstances (e.g., on immaterial items and areas in the financial statements where material misstatements are not likely to arise).

Requirement to design and perform additional procedures when the practitioner becomes aware of a possible material misstatement to:

1. conclude that the matter is not likely to cause the financial statements to be materially misstated; or
2. determine that the matter causes the financial statements as a whole to be materially misstated. (Positive conclusion)

(see paragraphs 57 and A108-A112 of CSRE 2400)

If no such matters arise, no additional procedures will be required to form a conclusion on the financial statements.

In some cases, if the practitioner becomes aware of a matter that causes the practitioner to believe the financial statements may be materially misstated, the additional procedures the practitioner designs and performs may be in the form of additional inquiry and analytical procedures or other types of procedures (e.g., external confirmations).

CSRE 2400 Requirement

Commentary

Evaluating Evidence Obtained from the Procedures Performed

Requirement to evaluate whether sufficient appropriate evidence has been obtained from the procedures performed (see paragraph A13 of CSRE 2400 for a description of the term “sufficient appropriate evidence”).

If not, you are required to perform “other procedures” (extend the inquiry and analytical procedures or perform other procedures), that are judged by you to be necessary to form a conclusion on the financial statements.

(see paragraphs 74-75 and A121-A122 of CSRE 2400)

Documentation of this evaluation must be included to demonstrate how the practitioner reached the conclusion on the evidence obtained.

The Practitioners' Report

After forming a conclusion on the financial statements, a new form of report will be issued.

Requirement regarding the possible inclusion of emphasis of matter and other matter paragraphs in the Practitioner's Report.

(see paragraphs 76-103 and A123-A160 of CSRE 2400)

An example of the Practitioner's Report with an unmodified conclusion on a general purpose set of financial statements, prepared in accordance with ASPE is included in [Appendix 2](#) of this Alert. Illustrations 2 and 3 in CSRE 2400 provide examples of modified conclusions.

CSRE 2400 also addresses new reporting requirements such as:

- **Emphasis of matter paragraphs** to draw attention to a matter in the financial statements
- **Other matter paragraphs** to draw attention to a matter pertaining to the review

Appendix 2 – Sample Report

Based on Illustration 1 in CSRE 2400 (Appendix 3)

INDEPENDENT PRACTITIONER'S REVIEW ENGAGEMENT REPORT

[Appropriate Addressee]

We have reviewed the accompanying financial statements of ABC Company that comprise the balance sheet as at December 31, 20X1, and the statements of income, retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with Canadian generally accepted standards for review engagements, which require us to comply with relevant ethical requirements.

A review of financial statements in accordance with Canadian generally accepted standards for review engagements is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less in extent than, and vary in nature from, those performed in an audit conducted in accordance with Canadian generally accepted auditing standards. Accordingly, we do not express an audit opinion on these financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these financial statements do not present fairly, in all material respects, the financial position of ABC Company as at December 31, 20X1, and the results of its operations and its cash flows for the year then ended, in accordance with Canadian accounting standards for private enterprises.

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

Review Engagement Guidance Task Force

CPA Canada expresses its appreciation to the author for developing this Audit & Assurance Alert and to the members of the Review Engagement Guidance Task Force for their contribution to its preparation.

Members

Phil Cowperthwaite, FCPA, FCA

Cowperthwaite Metha

Toronto, ON

**Gordon Cummings, FCPA, FCA,
CPA (Illinois, USA)**

D&H Group LLP

Vancouver, BC

Patricia Gonsalves, CPA, CA

BDO Canada LLP

Toronto, ON

Bridget Noonan, CPA, CA

Clearline Consulting

Richmond, BC

Annie Smargiassi, CPA, CA

Ordre des comptables professionnels

agr es du Qu bec

Montr al, QC

Author

Jane Bowen, FCPA, FCA

Staff

**Taryn Abate, CPA, CA,
CPA (Illinois, USA)**

Chartered Professional
Accountants of Canada

Toronto, ON

Comments on this *Audit & Assurance Alert*, or suggestions for future Audit & Assurance Alerts should be sent to:

Taryn Abate, CPA, CA, CPA (Illinois, USA)

Principal

Chartered Professional Accountants of Canada

277 Wellington Street West

Toronto, Ontario M5V 3H2

Email: tabate@cpacanada.ca

DISCLAIMER

This Audit & Assurance Alert was prepared by the Research, Guidance and Support group of the Chartered Professional Accountants of Canada (CPA Canada). It has not been approved by any Board or Committee of CPA Canada or any provincial accounting organization. This Audit & Assurance Alert has not been issued under the authority of the Auditing and Assurance Standards Board.

CPA Canada and the authors do not accept any responsibility or liability that might occur directly or indirectly as a consequence of the use, application or reliance on this material.

Copyright © 2016 Chartered Professional Accountants of Canada

All rights reserved. This publication is protected by copyright and written permission is required to reproduce, store in a retrieval system or transmit in any form or by any means (electronic, mechanical, photocopying, recording, or otherwise).

For information regarding permission, please contact permissions@cpacanada.ca.