

Practitioner Client Briefing

CANADIAN STANDARD ON REVIEW ENGAGEMENTS

MARCH 2017

Standard Discussed: Canadian Standard on Review Engagements (CSRE) 2400, *Engagements to Review Historical Financial Statements*

Purpose of this publication

CPA Canada has developed this *Practitioner Client Briefing (Briefing)* to provide practitioners with a document for discussion with clients and materials for their clients to have a discussion with the users of their financial statements. It discusses implementation of the new review engagement standard.

How to use this publication

To enable users of this *Briefing* to distinguish its different content areas, we have organized the information into three distinct sections, each aimed at a specific group of readers. The *Briefing* is structured as follows:

Part A – Practitioner Briefing

developed specifically for you, the practitioner

Part B – Client Briefing

developed for your clients

Part C – Third-Party Briefing

developed for lenders and other users of financial statements

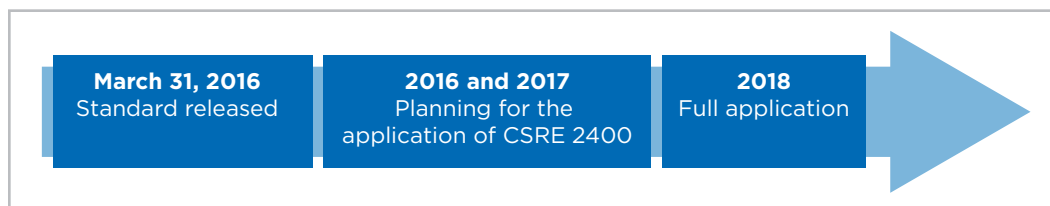
This *Briefing* has been prepared so you can separate or “tear out” the parts of the *Briefing* and distribute them as you see fit. As a result, when designing the *Briefing* to satisfy the informational needs of three distinct groups, a certain amount of repetition was inevitable, since it is expected that most readers will refer to only a single part of this *Briefing*.

PART A

Practitioner Briefing

When does CSRE 2400 affect my practice?

CSRE 2400 is effective for reviews of annual and interim financial statements (except when the interim engagement falls under the scope of Section 7060, *Auditor Review of Interim Financial Statements*) for periods ending on or after December 14, 2017; planning for the implementation of this new standard should begin before then. CPA Canada has published an [Audit & Assurance Alert](#) that raises awareness of CSRE 2400, outlines some of the implications for your practice and shows what you can do to be ready when it comes into force.



Why should I discuss this *Briefing* with my client?

This *Briefing* will provide you with information to start the discussion with your clients on the implications of the implementation of CSRE 2400. The following points are matters you may address:

- **Effective Date:** CSRE 2400 is effective for reviews of financial statements for periods ending on or after December 14, 2017.
- **Engagement Letter and Representation Letter:** Your clients will receive a new engagement letter and will be asked to prepare and sign a new representation letter.
- **Review Engagement Report:** There will be a new review engagement report attached to the client's financial statements; clients and third-party users of these financial statements should be informed in advance.
- **Impact of these changes on users of the financial statements:** Users of the financial statements may be interested in the change to the communication that will accompany the reviewed financial statements. The latter part of this *Briefing* can be separated and provided to users of the financial statements.

How can I learn more?

The Chartered Professional Accountants of Canada website provides a full range of information and learning opportunities.

1. [Guide to Review Engagements \(CSRE 2400\)](#)
2. [Audit & Assurance Alert: Engagements to review historical financial statements \(CSRE 2400\)](#)
3. [Free webinar: Practitioner's pulse](#) (September 2016)

PART B

Client Briefing

The report from your CPA who performs a review engagement on your financial statements will change for financial statements for periods ending on or after December 14, 2017

Your CPA (practitioner) will be applying a new review engagement standard, Canadian Standard on Review Engagements (CSRE) 2400, *Engagements to Review Historical Financial Statements*. This document has been prepared to help you understand what to expect.

What should I expect?

- **New letters:** Your practitioner will require you to sign a new engagement letter. This letter will explain your responsibilities and your practitioner's responsibilities relating to the review engagement. There may also be changes to the representation letter.
- **More communication:** The new review engagement standard includes a greater emphasis on communication with you as management (and those charged with governance (TCWG), if separate), including:
 - communication of all misstatements accumulated during the review and a request that management correct those misstatements
 - a request for written representation of management about whether they believe the effects of uncorrected misstatements are immaterial, individually or in the aggregate, to the financial statements as a whole
- **More discussion and inquiry:** The new review engagement standard emphasizes focusing on the areas where material misstatements are likely to occur. Therefore, different questions may be asked because there are more specific requirements in this new standard regarding the inquiry and analytics to be performed.
- **A new report:** The most significant change you may notice is to the review engagement report (the communication attached to the reviewed financial statements). A sample report is included as an [Appendix](#) to this Client Briefing.

What are the changes to the review engagement report?

You may want to communicate these changes to the users of your financial statements. This *Briefing* has prepared some tools to help you – a separate section for the users!

- The previous review engagement report briefly described what a review is and provided the practitioner’s conclusion.
- The new report summarizes both management’s and the practitioner’s responsibilities (describing a review engagement as a limited assurance engagement) and then provides the practitioner’s conclusion.
- **Remember:** A review engagement is not an audit; it is a limited assurance engagement. The procedures performed in a review are substantially less in extent than, and vary in nature from, those performed in an audit.
- Based on certain circumstances, the review engagement report may also include an Emphasis of Matter paragraph or Other Matter paragraph:
 - **Emphasis of Matter paragraphs** will be included if the practitioner considers it necessary to draw users’ attention to a matter presented or disclosed in the financial statements that, in the practitioner’s judgment, is of such importance that it is fundamental to users’ understanding of the financial statements. Such paragraphs will refer only to information presented or disclosed in the financial statements.
 - » Examples include:
 - when the financial statements are for a special purpose (e.g., financial statements prepared in accordance with the financial reporting provisions of an agreement) because they may not be suitable for another purpose
 - if a material uncertainty exists relating to going concern
 - **Other Matter paragraphs** will be included if the practitioner considers it necessary to communicate a matter other than those presented or disclosed in the financial statements that, in the practitioner’s judgment, is relevant to users’ understanding of the review, the practitioner’s responsibilities or the practitioner’s report
 - » Examples include:
 - when the prior-period financial statements were reviewed or audited by a predecessor practitioner
 - when the prior-period financial statements were not reviewed or audited

Appendix: A Review Engagement Report with an Unmodified Conclusion

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 the 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]

PART C

Third-Party Briefing: For Lenders and Other Users of the Financial Statements

The report from a CPA who performs a review engagement is changing

Do you read financial statements prepared by private companies? (i.e., are you a banker, lender, funder, etc.?)

Canadian Standard on Review Engagements (CSRE) 2400, *Engagements to Review Historical Financial Statements* was issued March 31, 2016, and is effective for reviews of annual and interim financial statements (except when the interim engagement falls under the scope of Section 7060, *Auditor Review of Interim Financial Statements*) for periods ending on or after December 14, 2017.

Early application is not permitted.

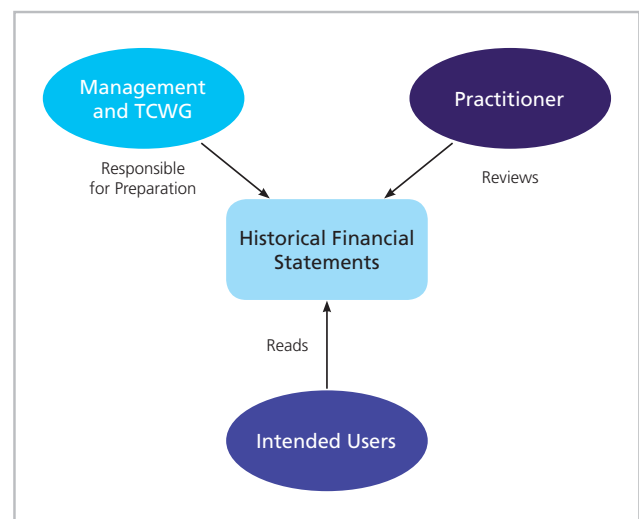
It is important to remember that the implementation of CSRE 2400 does not change the responsibility of the entity to prepare financial statements. A review engagement report provides limited assurance that the financial statements are prepared in accordance with the applicable financial reporting framework (e.g., Accounting Standards for Private Enterprises, Accounting Standards for Not-for-Profit organizations).

The following diagram summarized the parties involved in the process:

TCWG — Those charged with governance (TCWG) are often not separate from management in smaller entities. In those cases, management takes on the responsibility of TCWG to prepare and approve the financial statements.

The **practitioner** is a Chartered Professional Accountant (CPA) in public practice.

And of course, you are considered one of the **intended users** of the financial statements.



To understand the benefits and limitations of a review engagement (as compared to a compilation engagement and an audit engagement) it can be useful to illustrate the nature of the three engagements as follows:

Assurance	Engagement	Description
No Assurance	Compilation	<ul style="list-style-type: none"> an engagement to compile an entity's financial statements based on information received from a client no expression of assurance is provided
Limited Assurance	Review	<ul style="list-style-type: none"> an engagement to perform a review of financial statements and to form a conclusion on whether anything has come to the practitioner's attention to cause the practitioner to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework limited assurance provided; limited assurance is less than reasonable assurance provided in an audit a practitioner performs primarily inquiry and analytical procedures to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole
Reasonable Assurance	Audit	<ul style="list-style-type: none"> an engagement to perform an audit of financial statements and to form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework reasonable assurance is a high level of assurance achieved when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (i.e., the risk of an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level



How will this affect me?

The most significant change you will see is the actual review engagement report attached to the financial statements. See [an example of a report with an unmodified conclusion](#) on the next page. You should expect to see this new report for financial statements for which a review engagement has been requested, starting in 2018 (i.e., financial statements with a period ending on or after December 14, 2017).

Based on certain circumstances, the review engagement report may also include an Emphasis of Matter paragraph or Other Matter paragraph, as follows:

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A Review Engagement Report with an Unmodified Conclusion

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Conclusion

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[Practitioner's signature]
[Date of the practitioner's report]
[Practitioner's address]

Management's Responsibility

Practitioner's Responsibility

Limited Assurance

Conclusion

About this Publication

The Research, Guidance and Support group of the Chartered Professional Accountants of Canada (CPA Canada) undertakes initiatives to support practitioners and businesses in the implementation of professional standards.

The views and conclusions expressed in this non-authoritative publication are those of the authors. This publication contains general information only and is not intended to be comprehensive or to provide specific assurance, business, financial, investment, legal, tax or other professional advice or services.

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This publication has not been updated since its March 2017 publication date. Practitioners are expected to use professional judgment in determining whether the material in this publication is both appropriate and relevant to the circumstances of each engagement.

CPA Canada expresses its appreciation to the author, Jane M. Bowen, FCPA, FCA, for developing this *Practitioner Client Briefing*.

Comments on this *Practitioner Client Briefing*, or suggestions for future guidance should be sent to:

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