CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

Anatomy of a 7-Hour Review of Micro-Entities **Using CSRE 2400**

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STANDARD DISCUSSED
Canadian Standard on Review Engagements (CSRE) 2400,
Engagements to Review Historical Financial Statements

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Introduction

The standard for performing review engagements in Canada, CSRE 2400, is effective for reviews of financial statements for periods ending on or after December 14, 2017. Review engagements are a popular service for many entities in Canada as a way to reduce the costs of financial reporting and to increase the credibility of their financial statements. A practitioner is required to comply with all the requirements in CSRE 2400 regardless of the size of the entity; the standard is a one-size-fits-all engagements. Because the nature and size of entities vary widely, applying the standard can take many different paths: what works efficiently for one type of entity may not work at all for others. This is especially true when trying to apply CSRE 2400 to micro-entities (see **Appendix A** for the characteristics of a micro-entity).

This publication was inspired by a 2011 CPA Canada publication, **Anatomy of a 12-Hour Audit of Micro-Entities Using International Standards on Auditing**.[1] Many of the strategies for performing efficient audits of micro-entities and providing a profitable service are equally applicable to reviews. In fact, the strategies are also applicable to running almost any profitable service business, not just assurance engagements. The ultimate goal is to provide a service that is seen by your client as value-added and not just as a commodity. That is the key to long-lasting and profitable relationships.

In summary, this publication asks you to consider the following strategies for designing and performing an efficient and effective review engagement:

1. Automate wherever possible.
2. Select clients that suit your practice. Have the expertise and time to service your clients well.
3. Complete the work at the client's premises.
4. Use the most experienced staff possible.

1 Cowperthwaite, Phil. *Anatomy of a 12-Hour Audit of Micro-Entities Using International Standards in Accounting*. Toronto: CPA Canada, 2011. www.cpacanada.ca/en/business-and-accounting-resources/audit-and-assurance/canadian-auditing-standards-cas/publications/12-hour-audit-for-micro-entities

5. Develop a practice specialty.
6. Overcome both management and practitioner bias.[2]
7. Bill appropriately for the value you add.
8. Tailor your work to the requirements of CSRE 2400.

Micro-entities are so small they can offer challenges because fees are typically modest while at the same time the demands on the practitioner's expertise can be significant. This publication discusses how to use these eight strategies when applying CSRE 2400 to micro-entity review engagements. Review engagements can be profitable to the firm and value-added to the client, but require some set-up time in year one. It can, however, be a very worthwhile investment.

In addition, since you are required to understand the entity and its environment, a review engagement may give you the knowledge to leverage it into additional value-added work.

Every firm will have its own strengths, weaknesses and preferred work style. The best approach to an efficient review engagement is to take the time to consciously tailor that engagement in a way that works for you and your client. Adopting a one-size-fits-all approach is guaranteed to result in wasted time, inefficiencies and a lack of focus. It could also result in failure to service the client appropriately. Take the time to consider what will work best for you and your firm when performing a review engagement in accordance with CSRE 2400.

This publication includes the following Appendices:

- **Appendix A—Characteristics of a Micro-Entity**
- **Appendix B—Documenting Your Understanding of the Entity and Its Environment**
- **Appendix C—Inquiries Required in Every Review Engagement**
- **Appendix D—Examples of Documenting Inquiry and Analytical Procedures**
- **Appendix E—Bias and Professional Judgment**

2 "Good Judgments" in *Low Risk/High Margins: Auditing Micro-Entities* ed. Phil Cowperthwaite. Toronto: CPA Canada, 2014. Originally published in CPA Magazine, April 2013. www.frascanada.ca/canadian-auditing-standards/resources/reference-material/item80594.pdf

Strategies for an Efficient Review Engagement

1. Automate Wherever Possible[3]

Much of the physical output in a review engagement within a firm will likely be similar from file to file with a common file structure for each engagement and similar checklists and forms. In addition, common spreadsheets, word processing and database platforms allow for seamless data sharing. This can make rapid data sharing with clients and among files painless. None of these features are new, but are you using them to maximum advantage? There are several strategies you can use to increase the efficiency of every micro-entity review engagement. The trick is to be creative and use your imagination.

Engagement Management and Planning

For each month's upcoming micro-entity review engagements, you can use commercially available software to:

- roll forward last year's electronic file (usually two minutes or less for each file).
- call the client or send an email to discuss timing and ask whether there have been significant events/changes over the past year (10 minutes).
- email an engagement letter to the client (assuming there are no significant events or changes) along with a list of the areas you would like to discuss and information you will need for analytical procedures when you visit the premises. The request for information would have been customized to the specifics of the client and their industry in

3 "Automating audits" in CA Magazine, November 12, 2012.

the prior year. All these documents should have been already prepared as part of the file update (10 minutes). Ideally, even in year one, the requests will be customized to fit the client's business.

Engagement Processing and Assembly

Once your review engagement working paper file has been rolled forward electronically, ask your client to email you a trial balance in a format you can import into the file. Import the data and prepare a draft statement for the client. Assuming you have already mapped the trial balance in the prior year and the client has no wholesale changes in their account numbers and composition, this process should not be time consuming (i.e., less than 30 minutes).[4]

If any changes to note disclosure are required, copy and paste new notes from pre-written notes saved in your master file. Email the proposed drafts to the client. Note that the statements at this stage are very much the client's since they are based on pre-review numbers. With a minimum of upfront time, you can be ready to start the review engagement.

Fieldwork Phase

Here is how an automated review engagement of a micro-entity might progress:

- Arrive at client with the rolled-forward review engagement file and draft statements on your computer. After an initial discussion with the client, update the rolled-forward schedules documenting your understanding of the client's business and its environment for any changes since the previous review engagement.

- If you use pre-established materiality benchmarks (e.g., a fixed percentage of revenue), have the calculations pre-programmed and based on the imported trial balance. This will allow you to identify all material items before you arrive.

- Review account analyses (e.g., yield and other key ratio analyses such as gross profit percentage), all of which should also be in a pre-programmed working paper tied into the imported trial balance and developed in a prior year. In the review engagement of

4 Mapping in this case refers to establishing a code whereby each client account is assigned one of a set of standardized numbers that, in turn, can be used to group like accounts for financial statement preparation and other purposes. Mapping enables the practitioner to standardize preparation of documents such as lead sheets, analytical review schedules and, most importantly, financial statements.

a micro-entity, this pre-programmed analysis can likely be used both for updating the understanding of the entity and its environment and as the analysis required to address every material item in the financial statements and every area in the financial statements where material misstatements are likely to arise.

- If you have developed an engagement checklist in a prior year, complete it. The checklist should already be in the file in electronic format as part of the file roll-forward process.

- Document answers to inquiries in the rolled-forward working paper that was also developed in a prior year.

- Write management letter points as they arise in this year's management letter template (e.g., what you found, the implication of what could go wrong, your recommendation, etc.). Review comments with the client onsite.

Back at the Office

- Email the adjusted trial balance, proposed adjustments, amended draft financial statements and the management letter to your client.
- Email the letter of representation which has been previously prepared as part of the file roll-forward. Consider whether adjustments to the letter are needed in the current year.
- Email or mail a copy of the final financial statements and a bill once the appropriate person has accepted responsibility for the financial statements.

Be Smart About Automation

There are a number of cautions to heed before embarking on even a modest automation project:

- Be realistic. The initial automation process will likely take longer than you imagine. Thankfully the end result of automation is almost always worthwhile, but the initial process will be an effort.

- Spend time up front to get it right. A gram of planning is worth a kilo of back-end effort. With even a tiny error in your template, you are faced with either fixing the template and re-importing everything or fixing each individual file. It is very hard to get it entirely right the first time in any mass-change project. However, getting it as correct as you can is essential.

- Aim for consistency across clients wherever possible. Standardized templates for analytical schedules, financial statements, common management-letter recommendations and likely areas of interest for those charged with governance, statement coding and file indexing (among other things) eliminate the need to reinvent the wheel on every micro-entity review engagement. While each engagement is unique, it helps if you can standardize everything possible. As a guideline, if you have to do something twice you can probably save time by preparing a programmable template the first time.

2. Select Clients That Suit Your Practice. Have the Expertise and Time to Service Your Clients Well

A review engagement is predicated on getting most of the sufficient appropriate evidence from inquiry and analytical procedures. It is essential that you:

- understand when a review engagement for your client is both rational and appropriate and not just an excuse to reduce fees when an audit would normally be appropriate or where operations are so complex that inquiry and analytics are not likely to be sufficient
- have no reason to doubt management's integrity since you will be placing a lot of reliance on their answers to your inquiries
- have no reason to believe the underlying information will be either unreliable or unavailable since you will be placing a lot of reliance on analytical procedures.

CSRE 2400 does provide for speed bumps encountered along the way; additional procedures can be performed where it may be likely that the financial statements are materially misstated. For example, if you find that the data available is not sufficient to permit meaningful analytical procedures, then you will end up having to do more work to reach your conclusion that you initially anticipated. In this case, a review engagement may not be efficient; an audit may be more efficient and less costly for the client in the long run.

Establishing Quality Client and Service Profiles

One size does not fit all. To avoid clients that are incompatible with you and your firm, it is essential to determine the attributes of a suitable client and, equally important, to define the highest quality of service for this client. This can be done by developing suitability and quality-of-service profiles unique to you and your firm. Evaluating new and existing review engagement clients using these profiles is an important first step toward consciously building a practice full of quality clients.

Consider what client attributes are important to you. Factors to consider when establishing the profile of a quality client could include, but are not limited to, such characteristics as:

1. **The client's field of operations:** A quality client is one operating in an industry in which you have experience. Professional service is all about providing value to clients and the ability to provide value is obviously increased if you know the industry. Having the necessary skills is a requirement (see paragraph 23(ii) of CSRE 2400 and paragraph 26(a) of CSQC 1). If you contemplate accepting a client in an unfamiliar industry, ask yourself whether you have the requisite skills to service the client well and, if not, are you willing to invest the time needed to get up to speed.

2. **The size of the client:** The size of a client, just like its industry, should fit your firm's skill set. A firm focused on small and micro-entity clients is likely to find servicing large clients just as much of a challenge as a firm focused on large clients trying to service a micro-entity. Size does matter and is a factor in selecting quality clients. What size clients are already most effectively and efficiently serviced by you and your firm?

3. **The client's financial position and future prospects:** Are you willing to accept a client in any financial condition? You might think twice before continuing with or accepting a client with a significant accumulated deficit or with a prolonged history of losses. Clients at risk of contravening debt covenants and other commitments may also carry more risk than is acceptable to your firm. Determine the level of risk your firm is comfortable with and set the criteria accordingly.

4. **The state of the books and records:** An accurate, timely and organized set of books and records results in an efficient review engagement. At the other end of the spectrum, an error-filled, incomplete and disorganized set of books and records can be a nightmare. Do your due diligence upfront. Make sure to ask yourself how much pre-engagement work you are willing to accept and the kind of accounting system or bookkeeper with which you are willing to work. Establish what you consider an acceptable accounting environment and add those criteria to your quality-client profile. Where

you choose to perform pre-engagement bookkeeping services, this service should be separated from the review engagement and there must be appropriate safeguards in place to mitigate any threat to your independence.

5. **The client's understanding of the engagement:** Review engagements in Canada are conducted on the fundamental premise that the client has responsibility for the preparation of the financial statements (see paragraph 28(b) of CSRE 2400). This premise is especially important when you are considering engagements with micro-entity clients who often do not have in-house expertise in accounting and financial reporting. Do management and those charged with governance understand and acknowledge their responsibility for the financial statements? If not, you will be unable to accept the engagement. The client's willingness to take the time to understand the financial statements and take responsibility for them is a critical aspect of selecting quality clients.

6. **Client integrity:** Integrity is fundamental to a quality client. There is no quicker way to increase engagement risk to an unacceptable level than to deal with a client that lacks integrity. Every firm must have acceptance and continuance policies and procedures to consider the integrity of a client (see paragraph 27(d) of CSRE 2400 and paragraph 26(c) of CSQC 1). Add integrity to your quality-client profile.

In order to deliver quality service to your quality clients, it is important to think about what your firm considers quality service and determine whether or not you can deliver that level of service to every client.

Good practice management is not only profitable, it is also a requirement. Specifically:

1. **Does your firm have the appropriate competencies to do the work?** (See paragraph 23(d)(ii) of CSRE 2400 and paragraphs 30-31 of CSQC 1.) For example, if you are asked to report on a statement prepared in accordance with IFRS and you have little experience with this accounting framework, can you obtain the skills required?

2. **Are timelines sufficient to allow for an appropriate level of service?** If they are unreasonably tight, then the quality of service may suffer.

3. **Are fees likely to be appropriate for the skills required and time needed to perform the engagement?** If not, then there could be unwanted pressure to cut corners to make up time. Also, the engagement could be delayed in favour of completing more profitable business first. Service could suffer as a result.

4. **Are communications with the client likely to be conducive to a quality engagement?** For example, if a prospective client does not want you to do the work onsite, will you have access to the people you need to talk with to provide quality service?

Quality-client and service profiles are only helpful if they are used. That means actually taking the time to compare prospective or existing engagements against these profiles.

If a prospective or an existing engagement does not fit your profile, then you need a very good excuse to accept or continue the engagement. At stake are higher-than-acceptable engagement risks at best, and a failed engagement at worst, coupled with lower-than-acceptable profit margins.

Consider developing a one-page checklist that works for you. List the factors you consider essential to a quality client and for performing quality service. Complete the checklist both before accepting a new client and at the end of every continuing engagement in order to evaluate whether the client is right for you, your staff and your firm. The attributes of an acceptable client can also be added to the acceptance criteria in your firm's quality-control manual.

3. Complete the Work at the Client's Premises[5]

A review of a set of financial statements of a micro-entity is as much about the people as it is about the numbers and notes in the financial statements. Financial statement users want the credibility added by an independent professional accountant (i.e., you – the *practitioner*). Management is usually looking for an interpretation of what the statements say about performance as well as for constructive comments on any other matters you deem significant. This other advice may or may not be directly related to the review engagement. These discussions and the sharing of knowledge are the cornerstone of client service to micro-entities.

5 See *Anatomy of a 12-Hour Audit*, paragraphs A33 to A39

For many micro-entities, your visit is one of the few opportunities each year that management and those charged with governance (if separate) will have to talk to an experienced professional accountant. You have an opportunity to be a valuable resource to the micro-entity.

For communication to be most meaningful, it needs to be direct (i.e., one-to-one) and timely. The most efficient way for this to happen is to have the engagement partner or senior staff perform the review onsite or at least be present while it is taking place. This gives you a chance to interact directly with the client and, more importantly, provides an opportunity for you to evaluate answers provided by management to your inquiries. Regrettably this is not always the practice when it comes to the completion of a review engagement of a micro-entity.

The review of a micro-entity's financial statements is still called a "shoe box engagement" by many practitioners (i.e., the client boxes up all the records and ships them to the practitioner, who often gets to them only when there is nothing more pressing to do). The client gets back a signed financial statement together with its boxes of documents. It is very difficult to do a review engagement in accordance with CSRE 2400 if the review of a micro-entity's financial statements and documents has to take place in your office. Text-message and email answers from management to inquiries not only provide less meaningful evidence to evaluate, but also are likely to be more time consuming than a physical conversation with management at the client's place of business. In short, if you want your review of a micro-entity's financial statements to be efficient, do it onsite—always.

CSRE 2400 repeatedly requires oral or written communication with management and with those charged with governance on a wide variety of occasions, including:

- at the engagement acceptance phase
- in understanding the entity and its environment
- in inquiry required for every material item
- every area where a material misstatement is likely to arise
- in forming a conclusion.

It is no longer enough to put your head in a box of documents and come up with a review engagement report.

Doing the work on the client's premises, especially if it is done by an experienced practitioner, allows for communication to be immediate, direct and effective; doing the work offsite can result in delays and extensive emails and telephone tag at best and miscommunication at worst. If the work is done onsite by an experienced practitioner, you can create opportunities for serious time efficiencies. Having experienced staff doing the work onsite may require a significant shift in style for many and, in some cases, may not be culturally acceptable.

4. Use the Most Experienced Staff Possible[6]

Performing an efficient review of a micro-entity's financial statements requires you to minimize the time needed to make professional judgments. Evaluation of evidence from inquiry and analytical procedures as well as most significant decisions in the review of a micro-entity's financial statements can be made on the spot, provided those qualified to make those decisions are there when the evidence is gathered. This is especially important in a review engagement where the lion's share of the evidence usually comes from inquiry.

Of course, some judgments will likely require more time for consideration. The flatter the hierarchy of the engagement team, the more efficient both the making and the documenting of those judgments will be. For example, if the engagement partner does the fieldwork, then most decisions can be made and documented just once and usually do not need to be revisited. If a junior staff person does the fieldwork and reports to an engagement team manager, decisions big and small will need to go up and down the chain of command: from junior staff to manager to partner; back down to manager and junior staff for clarification; then back up the chain again for approval.

Having more than two people involved in the review of a micro-entity's financial statements means that the engagement likely will not be efficient. Having two practitioners involved can be efficient if both are experienced, especially if they have previously worked together. Having one person do all the work, preferably the engagement partner, is optimal.

The question of the practitioner's ego can be a very big issue. Many practitioners received assurance training in a hierarchical environment with its promotions, increased responsibilities and changes in day-to-day

6 See *Anatomy of a 12-Hour Audit,* paragraphs A28 to A32

tasks from the gathering of evidence to the evaluation and management of the evidence. Having the engagement partner do all or even any of the fieldwork may be viewed by many brought up in this environment as regressive and possibly even demeaning. However, let us look at the review engagement from the micro-entity's perspective.

While the objectives of the engagement and the form of the review-engagement report are clearly defined, a review of financial statements also gives management an opportunity to obtain more than additional credibility through their financial statements. You might, for example, arrive at a client's premise to perform a review engagement and be greeted enthusiastically by management with a list of questions covering a myriad of areas that may or may not pertain directly to the review engagement. The often brief conversation that follows would provide an opportunity to answer those questions while allowing you to update your understanding of the entity and its environment, identify new areas where material misstatements are likely to arise and generally focus your attention on what needs to be done. Management thus gets a chance to go over issues that are on their minds and to concentrate on obtaining information needed for preparing the financial statements.

This direct communication is lost if there are two or more layers of practitioners between the client and the engagement partner in a micro-entity engagement. The more direct the lines of communication, the more efficient (and effective) the engagement will be. Is the experienced practitioner able to accept what they might interpret as a loss of status by having to do what they consider "junior accountant" work? Where this is possible, the engagement can be carried out with maximum efficiency because decisions are made on the spot and the service offered to the client can be maximized because senior professionals are there to answer questions.

5. Develop a Practice Speciality[7]

Providing assurance on any set of financial statements requires an understanding of the entity, its environment and the applicable financial reporting framework (AFRF). You must invest significant time and effort to obtain and document this understanding when engaged to review any

7 See *Anatomy of a 12-Hour Audit,* paragraphs A20 to A25

entity for the first time, regardless of its size. This is especially so when the new client is in an industry with which you are not familiar. The efficiencies from developing an industry specialty are obvious.

For example, in Canada social agencies that provide services in the fields of childcare, social housing and immigrant settlement have much in common. Day-to-day expenses are largely related to personnel, and funding comes primarily from a single government source. That, however, is where the similarities end. Each sector is governed by a different set of funding rules and regulations. Each government ministry has a different set of reporting regulations; the policies of the political party in power can have a significant impact on the future prospects of a sector. Finally, the assets and liabilities of organizations in these three sectors typically vary dramatically. In these fields, assurance on annual financial statements provided by an independent professional accountant is generally mandatory in order for the organizations to secure funding. However, for many micro-entities a review engagement is starting to replace the request for an audit. Performing review engagements in multiple sectors can require an understanding of different businesses each with its unique operating characteristics.

A practitioner with 20 review engagement clients in 20 industries will spend more time on each engagement than a practitioner with 20 clients in one industry. Performing an efficient review of a micro-entity's financial statements is predicated on not having to reinvent the wheel every time you open a file. Knowing the industry allows you to minimize the time needed to determine areas where material misstatements are likely to arise and to focus on developing efficient procedures in those areas. For example, knowing that no significant changes in social housing policy have occurred in that industry in the past year or, if they have, knowing what they are in advance, allows you to design and focus inquiries and analytical procedures on significant areas immediately.

Having a practice specialty also allows you to draw on your experience to design both effective and efficient lines of inquiry and analytical procedures in advance. Analytical procedures such as comparing year-over-year grant funding per housing unit or analysing parent fees recorded per care days provided can be designed based on industry expectations and will provide maximum evidential value.

Of course, the benefits of developing a specialty are not new. It is just that with the need to retool review methodologies, the benefits are more apparent. Specialization makes more sense now than ever.

6. Overcome Both Management and Practitioner Bias

Professional skepticism and judgment are critical elements in every review engagement. Professional judgment is increasingly being questioned by non-practitioners, especially in the providing of assurance on historical financial statements. The judicial branch of the legal profession and medical professionals in diagnostic fields have put this high on their list of required professional development. Many experienced assurance practitioners are finding the mounting questions vexing because of their implied criticism of the judgment process. “I have been auditing/reviewing for years. My judgments are just fine, thank you very much,” is a common refrain.

This attention to practitioner judgment and skepticism comes at the same time as advances in cognitive psychology. Increasing attention is being paid to the way our brains are programmed to make judgments. It turns out that making good judgments is not as intuitive as previously thought. Specifically, our brains are programmed to make snap judgments often based on little evidence, and are guided by strongly built-in unconscious biases. While the ability to react quickly and decisively may be vital to survival in life or death situations, it is not usually helpful in conducting a review engagement. The impact of cognitive bias is especially important in a review engagement where much of the evidence comes from inquiry. The way inquiries are conducted and the way the evidence found is interpreted are particularly prone to problems of cognitive bias, both on the part of the entity’s management and the practitioner.

Many larger firms have developed sophisticated strategies for overcoming our unconscious biases and promoting sound processes for making judgments when performing assurance engagements. These methodologies work well in team environments where practitioners can question each other’s processes and judgments. However, because the team of professionals on a micro-entity review engagement is much smaller, sophisticated strategies are not the solution. It can be a real challenge for a one- or two-person team to overcome the threats of inherent bias in making judgments, but the threat can be reduced if your judgment processes include appropriate safeguards (see **Appendix E** for further discussion on bias and professional judgment).

7. Bill Appropriately for the Value You Add[8]

Some professionals gauge their success by the total hours charged. The more hours charged and billed, the more they are rewarded. But does this classic model of pricing really make sense in today's world of rapid change? This model builds in a bias for inefficiency since it implies that the more hours you work, the more you will be remunerated for your efforts.

The model does not reward you for working smarter (i.e., working more efficiently and spending less time to achieve high-quality results). Under the traditional model, a firm estimates the costs of a practice, including partners' profit and chargeable hours, and calculates a rate per hour for each category of staff in order to attain the desired goal. Since rates are fixed for a period (e.g., a year), the only way to increase revenue is to increase the hours billed. If you work more efficiently, you will make less money unless you raise your hourly rate. Today's reality includes advances in technology helping you to maximize efficiencies. This reality makes the traditional pricing model obsolete.

So how can you leverage today's advances while maintaining appropriate revenue? You can start by negotiating a fixed fee up front for micro-entity review engagements. In many review engagements, last year's fee acts as a benchmark for this year's bill. However, if you are performing a review of a micro-entity's financial statements for the first time, you cannot rely on last year's fee as a guide. Either negotiate a price based on your estimate of time and a per-hour rate or use local or industry norms to set your initial price.

By negotiating a set fee in advance, any efficiency introduced will benefit you by giving you more time to increase your client load, invest in making your review engagements more efficient, or enabling you to work fewer hours without a reduction in revenue. It is a given of course that quality work always comes first. A fixed-fee engagement builds in the incentive to invest in efficiencies to reduce time spent and increase your bottom line.

8 "Unlocking the Value II" in *Low Risk/High Margins: Auditing Micro-Entities*.

Quoting a fixed price for a review engagement comes with the proviso that if an unexpected problem occurs requiring significantly more time (a rare occurrence), then either the client will fix the underlying problem or the fee must be renegotiated before doing the unexpected work.

As a result, your client is reassured there is a fixed ceiling for the review engagement fee, and you have a guaranteed recovery before you start. Any savings generated will accrue to the firm. This does not benefit just you; clients appreciate an efficient review engagement.

Finally, if you work smarter, efficiencies will accrue to you by:

- ensuring the engagement is one you want before you start
- knowing your professional standards so you can focus on what is important
- specializing in an industry where possible
- automating your practice
- getting the right staffing mix
- doing your fieldwork at your client's place of business.

This is not rocket science; it just takes focus and the benefits will accrue to you.

8. Tailor Your Work to the Requirements of CSRE 2400

It may seem strange to think of tailoring your work to the requirements of CSRE 2400 when these requirements apply to all review engagements regardless of size. However, as with any assurance engagement, there are many routes to your final report; which one you take can make a world of difference to your recoveries. Following are suggestions on how to tailor your work to fit the specifics of your engagement and help to both reduce engagement risk and time to completion.

Read and Understand the Whole of CSRE 2400

The practitioner is required by CSRE 2400 to understand the entire standard (see paragraph 16 of CSRE 2400). It will be hard to get this understanding without actually taking the time to read the entire standard itself at least once. If you only rely on someone else's interpretation of what is required, you may well misunderstand the requirements as they relate to your particular situation and end up doing too much work (or too little) to achieve the level of assurance required.

With fewer than 80 requirements (excluding those directed to reporting), the length of CSRE 2400 is manageable. The first eight requirements with which you must comply require you to:

- Have the requisite competence
- Be skeptical.
- Exercise judgment.
- Be ethical.
- Comply with quality control provisions.

The performance requirements are not complex. The standard is designed so that if, based on inquiry and analytical procedures, nothing has come to your attention to indicate that the statements are materially misstated, you are essentially done. Yes, you have to comply with every requirement, but you only have to comply with the requirements that are relevant to your engagement.

For example, there is no requirement to confirm bank accounts, attend inventory counts or examine invoices, although there is nothing precluding you from doing these things if you think it will provide sufficient appropriate evidence efficiently. This is a marked difference from how review engagement standards have been interpreted by many practitioners for years in Canada, where certain substantive-type procedures have become *de facto* requirements even though they were not specified in the standards. The application of CSRE 2400 can be an opportunity for you to start fresh and plan your engagements based on CSRE 2400 requirements rather than old habits.

There are many other examples of procedures not specified in the standard that you may inadvertently perform just because "that is the way it has always been done". For example:

- There is no requirement to evaluate the design and effectiveness of internal controls related to financial reporting although the practitioner must obtain an understanding of "the entity's accounting systems and accounting records" (see paragraph 44(c) of CSRE 2400).

- There is no need to assess the risk of material misstatement as required by Canadian Auditing Standard (CAS) 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*; you need only identify areas in the financial statements where material misstatements are likely to arise (see paragraph 45 of CSRE 2400).

- There is no requirement to evaluate areas where material misstatements are likely to arise on an assertion-by-assertion basis.

Understanding the actual requirements can save you a lot of time when designing your procedures. As with any assurance engagement, you cannot make a professional judgment as to what to leave out if you do not know what is in the standards in the first place. In short, there is no substitute for actually reading the appropriate standards (i.e., CSRE 2400 and the Canadian Standard on Quality Control (CSQC) 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements).

Understand Your Client—The Foundation for Designing Efficient Questions and Performing Meaningful Analytical Procedures

Evidence in a review engagement is primarily obtained from inquiry and analytical procedures. The questions you ask and the analyses you undertake are critical to the effectiveness of the engagement, the level of client service and, just as important, to your recoveries. Asking insightful questions and performing meaningful analysis are therefore critical. If you do not, then, at best, you will have to go back to the client to ask more questions and perform other analyses and, at worst, you will fail to obtain sufficient appropriate evidence.

CSRE 2400 has a list of what you need to understand at a minimum (see paragraph 44 of CSRE 2400):

1. Relevant industry, regulatory, and other external factors including the applicable financial reporting framework;
2. The nature of the entity, including:
   a. Its operations;
   b. Its ownership and governance structure;
   c. The types of investments that the entity is making and plans to make;
   d. The way that the entity is structured and how it is financed; and
   e. The entity's objectives and strategies
3. The entity's accounting systems and accounting records; and
4. The entity's selection and application of accounting policies.

Obtaining this information is straightforward for a practitioner with the requisite assurance skills for a review engagement. The time needed to develop the required understanding will depend on the complexity of the engagement. It is important to note that obtaining this understanding does not occur only at the beginning of the engagement (see Appendix B for an example of a checklist for documenting your understanding); it is iterative. Your understanding will improve as the engagement progresses.

A review engagement of a micro-entity will often be carried out by a "team" of one (i.e., the engagement partner). If that person is onsite to develop the understanding, most of the inquiries can likely be carried out at the same time or shortly thereafter. Being onsite provides an important opportunity to create efficiencies.

It is important to develop efficient and effective methods for both documenting your understanding and for translating that knowledge into the lines of inquiry and analytical procedures required for every material item and areas where material misstatements are likely to arise. Consider using some of the strategies discussed earlier as a guide:

1. **Automate your engagement.** The understanding of the entity and its environment developed in prior years can be rolled forward and updated in subsequent years with minimal effort. The trick is to not overlook updating your understanding; otherwise, you might miss significant changes from the prior year.

2. **Develop/update your understanding onsite whenever possible.** Sending a generic list of questions is unlikely to provide the nuanced understanding required for an efficient engagement. Talking with key entity personnel to develop your understanding is by far the best way to proceed.

3. **Have the most experienced engagement-team members develop and update the understanding.** As this understanding is the basis for the inquiry and analytical procedures, it makes sense for an experienced engagement-team member to be involved right at the start. In many micro-entity review engagements, the understanding can be updated in conjunction with the required inquiries. If an experienced engagement-team member is doing this onsite, the inquiries can be modified on the spot in the event circumstances have changed. This is much more efficient than having a junior staff person update the understanding, perform the inquiries and then have to return for a second round of inquiries based on the concerns of more experienced team members.

4. **Develop a practice specialty.** This will cut down on the time needed to update your understanding of changes in the entity's industry and to modify your approach to the review engagement. You may be able to develop industry-specific checklists that can focus the engagement on the important areas and those areas where material misstatements are likely to arise. Having industry-specific expertise can significantly reduce engagement risk and reduce engagement time.

Take Time to Plan Your Analytical Procedures and Inquiries in Advance

CSRE 2400 requires inquiries and analytical procedures for every material item in the financial statements and for every area where you think material misstatements are likely to arise. If you are satisfied with the evidence obtained from these procedures, the review engagement is essentially done.

What the standard does not require is as important as what it does. Classic standard substantive procedures are not required in every review engagement. If you are satisfied with the evidence obtained from your lines of inquiry and analytical procedures, you should not need to confirm bank accounts, review contracts, look at client analyses, review minutes etc. Get the representation letter, issue your review engagement report and you are done. By the same token, you are not precluded from performing any procedures you think will provide sufficient appropriate evidence more efficiently, lower your perception of engagement risk or aid in providing client service. Professional judgment in limiting procedures to only those considered necessary is of paramount importance; exercising that judgment is critical to executing an efficient engagement. One size definitely does not fit all CSRE 2400 engagements.

Once you have taken the time to develop an understanding of the entity and its environment and have determined materiality, you will be in a position to draw up a list of (see paragraph 46 of CSRE 2400):

1. material items in the statements, including disclosures
2. areas in the financial statements where material misstatements are likely to arise.

While CSRE 2400 does not require a list of all material items, it makes sense to include one in your file along with a list of areas in the financial statements where material misstatements are likely to arise (i.e., as required by paragraph 45 of CSRE 2400) to make sure you have not missed anything along the way.

How you choose to document your inquiries and analytical procedures will depend on your personal style. There is no one correct format. One suggestion, however, is to lay out the material items and the areas of the financial statements identified, the list of questions to be asked and to provide space to document answers and conclusions (see **Appendix D** for an example). The method will depend on the degree of automation, the experience of the professionals performing the work and your experience with the industry.

The only approach unlikely to work efficiently is to use a generic one-size-fits-all form for all your review engagements. While a generic form may be a good place to start in an initial review engagement, it needs to be customized to the specifics of your client's operations, their industry and your work style/staff. This customization takes time in year one but is well worth the effort since, with file automation, you can roll the form forward in year two and amend the form for changes from prior years and for changes in your understanding of the client. Customization is key. The simpler the form is and the easier it is to modify, the better.

Getting Quality Evidence is Essential

Analytical Procedures

Assurance professionals usually have extensive experience both in designing and performing analytical procedures. While CSRE 2400 is largely silent as to what analytical procedures must be performed, there is a lot of excellent material giving examples of useful analyses and techniques. The free CPA Canada **Guide to Review Engagements** has a list of sample analytical procedures and some how-to commentary.[9] Again, professional judgment is critical in selecting and interpreting meaningful analytical procedures.

Inquiry

Unlike analytical procedures, CSRE 2400 has a list of very specific lines of inquiry that must be followed in every review engagement. This list can be easily incorporated into a checklist and customized for specific industries and engagements (see **Appendix D** for an example).

9 CPA Canada. *Guide to Review Engagements*. Toronto: CPA Canada, 2016. Section 5.1-1, Analytical Procedures and Appendix D.

Assurance professionals are not, however, always as skilled at obtaining evidence through inquiry as they are from analytical procedures. Asking the right questions in the most appropriate manner is arguably the most important evidence-gathering procedure in any review engagement. If you get this wrong, you will greatly increase your risk of a review engagement failure. If you plan to perform many review engagements, this is definitely one area where professional development can help.

The CPA Canada **Guide to Review Engagements**, Section 5.1-2, "Making Inquiries", is an excellent place to start. It outlines some basic but effective techniques and principles to help you in designing effective lines of inquiry. The following table provides additional tips for micro-entities:

Technique/Principle	Description
Set objectives for your inquiries before you start to ask questions.	What are you trying to accomplish with your inquiry? The more specific you can be, the more focused on the issues the questions are likely to be.
Identify the best person in the entity to ask.	Even in a micro-entity, this will not always be just one person responsible for the financial statements. Is there a second person you could ask questions of? Use of a second person could corroborate the evidence from the first person or possibly shed light on a new aspect of an issue.
Use the understanding obtained of the entity and its environment as a frame of reference for questions.	Questions of material items and areas in the financial statements where material misstatements are likely to arise should flow from your understanding of the entity and its environment. For example, as part of developing your understanding, you might have determined that technology has rendered a particular product obsolete. When inquiring about an inventory obsolescence reserve, you could ask a series of questions focusing on that product specifically as opposed to asking general questions such as whether the inventory obsolescence reserve is sufficient.
Ask open-ended questions.	It is surprising just how effective this technique can be and just how ineffective questions with "yes" or "no" answers can be. Asking for specifics can lead to more meaningful lines of inquiry (e.g., names of clients creating collections problems, plans if oil prices stay low for an extended time, reasons for cashing out the GIC last August).
Prepare follow-up questions.	Think about what you expect to hear based on your current understanding. Have a backup plan in the event your line of questioning does not provide the answers you might have expected. This is especially important in the event junior staff conduct the inquiry and you do not plan to return to the client to repeat the inquiry process.

Technique/Principle	Description
Listen and look for indicators of discomfort.	Make sure the question you asked is answered. Evasive responses or misdirection into other matters may indicate there is an issue to be followed up. Evidence of physical discomfort or failure to make eye contact during the interview may be indicative of issues that need further exploration. In short, the interviewer needs to pay attention to body language as well as the answers during the discussion.

Combine Strategies with Mandatory Inquiry and Analysis

Combine your firm's strategies to design efficient and effective analytical procedures and lines of inquiry with the performance requirements to make your review engagements as efficient as possible. Specifically:

1. **Automate your engagement:** Analytical procedures and lines of inquiry developed in year one can be rolled forward and updated in subsequent years with minimal effort. It is important that the procedures be updated to take changes noted in your understanding of the entity and its environment into account. However, it will usually be the case that most of the questions and analytical procedures from last year will be applicable this year. The time saved by automation should be significant.

2. **Ask your client questions and review analytics onsite wherever possible:** As with developing the understanding, sending a generic list of questions is unlikely to provide the nuanced understanding required for an efficient review engagement. Talking with key entity personnel onsite will also give the team a chance to assess non-verbal communication and ask follow-up questions immediately when contradictory evidence is uncovered.

3. **Have the most experienced engagement team members ask the questions of management:** If an experienced engagement-team member is doing this onsite, the inquiries can be modified on the spot in the event circumstances have changed. This is much more efficient than having a junior staff person perform the inquiries and then have to return for a second round of inquiries based on the concerns of more experienced team members. In addition, if your understanding turns out to be incorrect, then a new line of inquiry can be developed onsite, thus avoiding the need to go back for a second or third unbudgeted visit.

4. **Having a practice specialty will cut down on the time needed to develop meaningful analytical procedures and lines of inquiry:** This will also allow you to develop industry-specific checklists that already focus the engagement on the important areas and those where material misstatements are likely to arise. Having industry-specific expertise also significantly reduces both engagement risk and time.

Additional Procedures Require Assurance Skills and Financial Reporting Expertise

If a practitioner becomes aware of a matter(s) that causes the practitioner to believe the financial statements may be materially misstated, the practitioner shall design and perform additional procedures (see paragraph 57 of CSRE 2400). There are two points of note in this requirement.

First, the practitioner must determine what constitutes "additional procedures" (see paragraph A114-A118 of CSRE 2400). These procedures could involve as little as a few additional questions or as much as a full-blown inventory count or even reliance on an external expert. It all depends on the professional judgment of the practitioner. As a result, it is essential that the engagement partner "possess competence in assurance skills and techniques, and competence in financial reporting, appropriate to the engagement circumstances" (see paragraph 22 of CSRE 2400). Without that expertise it could be very challenging for you to exercise the professional judgment required to ensure sufficient appropriate evidence is obtained to support your conclusion.

Second is the asymmetrical goal of the requirement to perform additional procedures. The practitioner performs additional procedures sufficient to enable them to:

1. conclude that the matter(s) is not likely to cause the financial statements as a whole to be materially misstated; or
2. determine that the matter(s) causes the financial statements as a whole to be materially misstated.[10]

Concluding on the second condition requires sufficient appropriate evidence that the statements are misstated. This is positive assurance on the matter. The first condition requires only limited assurance as defined in paragraph 15(j) of CSRE 2400, that the financial statements are not

10 There is a third possibility that the practitioner will not be able to form a conclusion as a result of a scope limitation (see paragraph 75 of CSRE 2400). This is not addressed in this publication.

“likely” to be misstated. The engagement partner will need competence in assurance skills and techniques, and competence in financial reporting to understanding the distinction between the two when evaluating evidence collected.

Failure to understand this subtlety could result in too much work being performed in situations where the financial statements are not likely to be materially misstated and too little work being performed in situations where they are misstated. Assurance expertise is therefore essential when performing review engagements.

Summary

After the consideration of all of the strategies suggested in this publication, it is possible that some review engagements may be competed in a day. The time allocation would look something like this:

Review Activities	Hours
Communicate with client, send engagement letter, set onsite review date.	0.5
Roll file forward, import trial balance, assist in drafting financial statements.	1.0
Do fieldwork onsite, including: • updating knowledge and understanding of the entity and its environment • making inquiries and performing analytical procedures • creating procedures to address specific circumstances (if required) • creating additional procedures (if required) • generating documentation.	4.0
Write the financial statement review report (form the conclusion and prepare the appropriate review engagement report)	1.0
Communicate with client, bill, assemble file	0.5
Total time	**7.0**

Appendices

Appendix A — Characteristics of a Micro-Entity

There is no consensus on the definition of a micro-entity. A good starting point is the definition of smaller entity in the "Glossary of Terms" in the *CPA Canada Handbook – Assurance*:

Smaller entity — An entity which typically possesses qualitative characteristics such as:

1. Concentration of ownership and management in a small number of individuals (often a single individual — either a natural person or another enterprise that owns the entity provided the owner exhibits the relevant qualitative characteristics); and
2. One or more of the following:
   a. Straightforward or uncomplicated transactions;
   b. Simple record-keeping;
   c. Few lines of business and few products within business lines;
   d. Few internal controls;
   e. Few levels of management with responsibility for a broad range of controls; or
   f. Few personnel, many having a wide range of duties.

For purposes of this publication, the characteristics of a micro-entity include the following:

- There is no chief financial officer position and often no full-time bookkeeper.
- Notwithstanding management's acknowledgment of responsibility for financial reporting, the practitioner is usually requested to provide assistance with the presentation of financial information in accordance with the applicable financial reporting framework (i.e., the practitioner has a role in drafting the financial statements).

- Either those charged with governance or management are involved in running the entity on a day-to-day basis.
- The review engagement is not considered to be high-risk, therefore, will not require an engagement quality-control review.
- Turnover is under CAD$1 million and there are 10 or fewer staff. These quantitative characteristics are somewhat arbitrary. Reviews of clients with turnover greater than CAD$1 million and more than 10 staff generally cannot be performed in seven hours or less.

Appendix B—Documenting Your Understanding of the Entity and Its Environment

Reference	Topic	Understanding	Discussed with/when	Change from last year? [Y/N]
2400.44(a)	relevant industry, regulatory, and other external factors including the applicable financial reporting framework (AFRF)	• key legislation affecting the entity • other key external factors • industry specifics affecting the AFRF		
2400.44(b)(i)	nature of the entity, including: operations	details of operations—see memo [ref]		
2400.44(b)(ii)	ownership and governance structure	description of members or owners, board and/or other governance structures (not-for-profit organization or profit-oriented entity)		
2400.44(b)(iii)	the types of investments that the entity is making and plans to make	details—see memo [ref]		
2400.44(b)(iv)	the way that the entity is structured and how it is financed	• related parties if any • details of financing—see memo [ref]		
2400.44(b)(v)	the entity's objectives and strategies	summary of objectives and strategies and how those relate to current operations		
2400.44(c)	the entity's accounting systems and accounting records	details—see memo [ref]		
2400.44(d)	the entity's selection and application of accounting policies	details—see memo [ref]		
	other matters, if needed	details—see memo [ref]		

Appendix C—Inquiries Required in Every Review Engagement

Reference	Inquiry	Answer	Discussed with/when	Change from last year? [Y/N]
2400.47(a)	How does management make the significant accounting estimates required under the AFRF?			
2400.47(b)	• Who are the related parties? • What related-party transactions have occurred? • What was the purpose of those transactions?			
2400.47(c)	Were there any significant, unusual or complex transactions, events or matters that have affected or may affect the entity's financial statements, including: • significant changes in the entity's business activities or operations • significant changes to the terms of contracts that materially affect the entity's financial statements, including terms of finance and debt contracts or covenants • significant journal entries or other adjustments to the financial statements • significant transactions occurring or recognized near the end of the reporting period • status of any uncorrected misstatements identified during previous engagements • effects or possible implications for the entity of transactions or relationships with related parties?			
2400.47(d)	Is management aware of any actual, suspected or alleged: • fraud or illegal acts affecting the entity • non-compliance with provisions of laws and regulations that are generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements?			

Reference	Inquiry	Answer	Discussed with/when	Change from last year? [Y/N]
2400.47(e)	Has management identified and addressed events occurring between the date of the financial statements and the date of the practitioner's report that require adjustment of, or disclosure in, the financial statements?			
2400.47(f)	What is the basis for management's assessment of the entity's ability to continue as a going concern?			
2400.47(g)	Do any events or conditions appear to cast doubt on the entity's ability to continue as a going concern?			
2400.47(h)	Are there any material commitments, contractual obligations or contingencies that have affected or may affect the entity's financial statements, including disclosures?			
2400.47(i)	Were there any material non-monetary transactions or transactions for no consideration in the financial reporting period under consideration?			

Appendix D—Examples of Documenting Inquiry and Analytical Procedures

Item/ Area-Why?	Inquiry (from whom and when) (see note below)	Answer (from whom)	Analysis Ref	Conclusion
Cash—material	• Are bank statements reconciled monthly? • How old is the oldest outstanding item? • Are there any outstanding deposits?	• yes; by second week after month end • none earlier than 30 days before Y/E • none at year end	• A lead • cash up because GIC cashed before year end	nothing to indicate statements materially misstated in context of AFRF
• Accounts receivable (AR) allowance • Downturn in customers' industry might result in collection problems. • AR could be overstated.	• What amount or percentage of AR is over 90 days? • Which of your receivables are likely to be most difficult to collect? • What are you doing to monitor and collect overdue amounts?	• $10K, a material amount • clients A, B and C • monthly contact by phone, payment plans	• C lead • receivables up 15% over last year; sales flat in year; allowance up 30%	nothing to indicate statements materially misstated in context of AFRF

Note: Ideally, answers will include documentation of the parties of whom the questions were asked, who did the asking and when the asking occurred. Often in a micro-entity, all the administration is performed by one person; in the review engagement the questions are all asked by one person on the same date. A note to this affect at the beginning or end of the checklist working paper will often suffice instead of noting the same information beside every item.

Appendix E—Bias and Professional Judgment

A recent spate of books on the topic of unconscious bias in the judgment process, such as Daniel Kahneman's *Thinking, Fast and Slow*, Dan Ariely's *Predictably Irrational*, and Richard Thaler and Cass Sunstein's *Nudge: Improving Decisions about Health, Wealth and Happiness* sheds light on our conscious and unconscious thinking processes and the challenges to making good judgments. Some of the factors practitioners may not be conscious of include:

- **The power of first impressions:** Our brains quickly make unconscious judgments based on first impressions. First impressions unconsciously colour subsequent thinking, which affects how a person thinks about issues. Unconsciously looking through rose-coloured glasses can inhibit the skeptical attitude required in every assurance engagement. Snap judgments based on first impressions and the barest of facts may be an advantage when being chased in the wild by an animal, but they are not helpful when facing a difficult issue on an assurance engagement, such as assessing the ability of an entity to continue as a going concern in a turbulent market. Special care must be taken not to accept the first explanation provided by management in response to an inquiry, especially when delivered with a smile and where the area in question is subject to significant judgments by management.

- **Taking the easy route:** We unconsciously default to easy judgments. Our brains evaluate situations and, based on our past experiences and recent impressions, unconsciously take the route requiring the least mental effort. It is important to note that *easy* does not equal *lazy*; this is just the way the human brain is wired. Unfortunately, unconsciously making easy judgments does not bode well for the practitioner facing a new set of circumstances or a complex situation requiring various perspectives.

- **Believing what we are told:** If first impressions are positive, people are unconsciously inclined to believe what they are subsequently told. While this trait may be a marketer's dream, it poses a direct threat to a practitioner's skepticism.

- **Believing what we want to:** We unconsciously discount evidence that contradicts our beliefs. This is a well-understood failing of many investors, not to mention voters. Once they believe an investment is a good buy or a candidate would be a good representative, they heavily discount any contradicting evidence. The same is true for practitioners. Once they head off in one direction, it takes conscious concerted effort to be persuaded to change, even in the face of contradictory evidence.

- **The influence of the initial position:** The starting point of any decision has a big influence on how people unconsciously view probable outcomes. A practitioner's consideration of the range of outcomes of an estimate varies significantly depending on management's initial estimate. If the initial estimate is $10,000, then the practitioner may consider a range of $5,000 to $20,000 as reasonable, whereas if that initial estimate is $100,000, then the practitioner may consider a range of between $50,000 and $150,000 as reasonable. To avoid this unconscious bias, the practitioner should be stepping back to see what the estimate should be regardless of the starting point provided by management.

These are samples of the serious unconscious threats to a practitioner's ability to make good judgments. What practitioners are *not* capable of is changing their very nature. Practitioners are human after all and cannot change the basic workings of their brains. What practitioners *can* do is introduce safeguards to protect against unconscious bias. This is essential to ensure a skeptical attitude. However it is managed, practitioners need to make good judgments on every assurance engagement.

Barriers to Making Good Judgments in Assurance Engagements

There are complications that make eliminating bias in the judgment process in a micro-entity assurance engagement a challenge. The assurance engagement team on a micro-entity engagement is typically one person, and in some cases two people, such as a junior staff person and the engagement partner. Less experienced team members can find it awkward to question a more senior team member's judgment. Also, management is often not knowledgeable about accounting and financial reporting, which makes the initial identification of issues all that more difficult. Second guessing one's own judgment is especially hard when it likely involves unconscious bias. Implementing excessively formal and rigid judgment processes is not conducive to an efficient or effective micro-entity assurance engagement where flexibility is essential.

Develop a Process to Reduce Unconscious Bias

The good news is that there are safeguards you can implement in even the smallest assurance engagements to significantly reduce the impact of inherent and unconscious bias in judgment.

Safeguards take both time and conscious effort, and they will only work if the professional implements them diligently. The even better news is that the process of conscious decision making gets easier with practice. Documenting the process (a valuable safeguard in its own right) means you will have complied with the documentation requirements for significant judgments as you make them—an added bonus.

The following 10-step process should help a practitioner working on a micro-entity assurance engagement reduce bias when making significant judgments:

1. **Clearly state the issue:** Overcome the power of first impressions by clearly stating an issue. This can clarify the problem and allow the practitioner to focus attention on the real concern. For example, is the issue one of uncertainty regarding an estimate, or rather the implications of that issue on debt covenants and the possible calling of a demand loan? This is the time to stand back and expand your perspective.

2. **Document which stakeholders will be affected by the judgment:** Get away from the unconscious tendency to take the *easy* route initially presented; focus on the more complex picture instead. Are the stakeholders primarily creditors, management, members and/or the client's customers? It is important to understand who could be affected. Groups could have different tolerances for the outcome and have their own biases. Inquiries can be much more focused as a result. For example, in a not-for-profit organization, a modest change in an estimate could result in an unexpected surplus requiring repayment to a funder. In this case, the impact on management and the funder both need to be considered.

3. **Determine the possible outcomes and whether they differ for various stakeholders:** Looking at an issue from more than one perspective avoids unconscious influence from the initial position presented. Given the principal stakeholders involved, how will various outcomes be perceived? Think of the impact of various possible outcomes and how they compare to management's estimates. This is especially important when evaluating the results of analytical procedures. How would various outcomes affect different stakeholders?

4. **Evaluate the process management has gone through to develop the issue, what evidence it has provided, and what you have done to verify it:** This is instinctively done by trained practitioners. Unfortunately, it is often the only step practitioners perform when making a judgment and is subject to the threat of unconsciously giving inordinate weight to supporting evidence provided by management. Consciously ask management to explain

the evidence management has provided. Has it explored a range of options or looked at only one? Are its assumptions reasonable or do you need to perform additional procedures to obtain evidence to corroborate them?

5. **Obtain evidence from other sources and evaluate its quality:** Safeguard against the unconscious bias to give greater weight to evidence confirming management's assertion and less weight to that contradicting it. Have you asked about or come across any evidence that refutes management's assertion and, if so, was it persuasive? If not, are you letting your unconscious take the *easy* route? If you have not come across any evidence at all to refute management's assertion, you should at least document that you asked.

6. **Determine whether consultation with someone else is necessary:** In most micro-entity assurance engagements, consultation will not be needed as the engagements are by definition low risk. If consultation seems unnecessary when evaluating a more complex area where material misstatements are likely to arise, document why you believe this is the case.

7. **State and document your conclusion reached and the impact on your assurance engagement:** Documentation proves time and time again to drive quality judgments and quality assurance engagements. A few minutes taken to document your process is time well invested.

8. **Document why you believe your conclusion to be correct:** While it is important to document the outcome you believe is true, it is just as important to document why you disagree with the other outcomes identified. Why, for example, were you not persuaded by evidence you found contrary to the judgment you made? Why were other options not considered or, if they were, why were they discarded? Again, this is a safeguard against unconsciously giving inordinate weight to evidence that supports your case.

9. **Evaluate the cumulative effect of management's judgments for evidence of bias:** By assessing the combined impact of all judgments, you may see evidence of management consistently leaning one way.

10. **Consider revisiting your judgment in next year's assurance engagement:** When looking at this year's results, evaluate how well you did last year. This will provide feedback on the quality of your judgment process.

A review of a micro-entity's financial statements may be considered low risk, but significant judgments are still necessary and practitioners must always approach these engagements with a skeptical attitude. Unconscious biases can have a detrimental impact on practitioner judgments. Regardless of the size of the review engagement team, it is important to have safeguards to protect against these unconscious threats. A rigourous process to help reduce unconscious bias in making judgments is essential in even the smallest of review engagements.

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