

## Documentation in Review Engagements

This is the seventh and final article in the series highlighting the requirements of the new review engagement standard, Canadian Standard on Review Engagements (CSRE) 2400 – *Engagements to Review Historical Financial Statements*, which becomes effective for reviews of financial statements for periods ending on or after December 14, 2017, with no option for early adoption.

### DOCUMENTATION CONSIDERATIONS IN A REVIEW ENGAGEMENT

This article discusses the importance of documentation when preparing a review engagement. CSRE 2400 paragraph 104 (CSRE 2400.104) states that documentation provides evidence that the review was performed in accordance with CSRE 2400 and with legal and regulatory requirements where relevant. CSRE 2400.104 further notes that documentation provides “a sufficient and appropriate record of the basis for the practitioner's report” and that the “practitioner shall document the following aspects of the engagement in a timely manner, sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand:

- The nature, timing and extent of the procedures performed to comply with this CSRE and applicable legal and regulatory requirements;
- Results obtained from the procedures, and the practitioner's conclusions formed on the basis of those results; and
- Significant matters arising during the engagement, the practitioner's conclusions reached thereon, and significant professional judgments made in reaching those conclusions.”

The above requirements impact documentation in the entire working paper file and are further discussed below.

### DOCUMENTATION REQUIREMENTS

#### Documentation of the Nature, Timing and Extent of Procedures Performed

Good documentation of the nature, timing and extent of procedures performed includes:

- Describing the nature, timing and extent of the review procedures performed;

- Noting who performed the work;
- Documenting the date the work was performed; and
- Documenting the enquiries made by the practitioner and responses received by management.

### Utilizing Checklists

Many practitioners use checklists or other forms to complete review engagements and document the work performed. Often checklists are completed using “yes”, “no” or “not applicable” responses, with no additional commentary or supporting documentation. While it is possible that a “yes”, “no” or “not applicable” response may be adequate, it is often not enough. For example, a “yes” answer to a checklist inquiry as to the adequacy of the bad debts provision will be insufficient to meet the requirements of paragraph 104 if no other information or documentation is noted in the file. There should be additional documentation of discussions with management covering matters such as:

- Recoverability of receivables including amounts outstanding for significant periods of time;
- Criteria that management is using to determine non-recoverable amounts;
- Analysis of the aging of receivables as compared to prior years; and
- Analysis of bad debts by year.

It is best practice to add a comment or a working paper reference of where additional work is performed when answering “yes” or “no” to questions on a checklist even when the response would be obvious. This will aid in ensuring that the documentation is complete where an experienced practitioner who has no previous connection with the engagement can understand the nature, timing and extent of the procedures performed.

Regardless of whether checklists are used or not, practitioners have the responsibility to meet all the requirements of review engagement standard, and should therefore ensure that they have thoroughly read and understood CSRE 2400.

### **Documentation of the Results of Procedures Performed and Conclusions Reached by the Practitioner**

It is necessary to document the practitioner's conclusions as to whether the explanations and analysis performed provide sufficient appropriate evidence to form their conclusion on the review engagement. This involves questioning the responses received by management and applying professional skepticism to ensure that the explanation makes sense and corroborates with the other responses received and information included in the financial statements. For example, a practitioner conducting an analysis of the gross margin of a retail store discovers the gross margin and the year-end inventory balance both increased, but sales remained fairly constant from the prior year. If the response from management regarding the increase in the inventory balance is that the cost of inventory has increased, the practitioner should conduct further inquiries or procedures, as this response would be inconsistent with the increase in the gross margin.

As illustrated in the example above, before a practitioner arrives at a conclusion, it is important that the practitioner has a questioning attitude, critically assesses evidence obtained and investigates possible misstatements due to error or fraud throughout the review engagement.

### **Documentation of Significant Matters**

It is important to document the professional judgment used by the practitioner relating to significant matters arising during a review engagement. Significance is defined in the glossary of terms to the *CPA Canada Handbook, Assurance*, as "The relative importance of a matter, taken in context. The significance of a matter is judged by the practitioner in the context in which it is being considered. This might include, for example, the reasonable prospect of its changing or influencing the decisions of intended users of the practitioner's report; or, as another example, where the context is a judgment about whether to report a matter to those charged with governance, whether the matter would be regarded as important by them in relation to their duties. Significance can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the expressed interests of intended users or recipients."

Examples of where significant decisions are made by a practitioner include the determination of areas in the financial statements where material misstatements are likely to arise and the calculation of materiality. In both these examples, the practitioner needs to clearly document how their professional judgment was used to make these significant decisions.

In addition, if in the course of the engagement the practitioner identified information that is inconsistent with the practitioner's findings regarding significant matters affecting the financial statements, the practitioner should document how the inconsistency was addressed.

## CONCLUSION

In order for a practitioner to comply with CSRE 2400.104, the documentation in a working paper file must be sufficient to enable an experienced practitioner, having no previous connection with the engagement, to review the file and understand the work performed, the results obtained, significant matters arising and conclusions reached.

## RESOURCES AND TOOLS

Various tools and resources available to assist with understanding CSRE 2400 include the following:

- [Guide to Review Engagements \(CSRE\) 2400](#)
- CPA Canada's Audit & Assurance Alert: Engagements to Review Historical Financial Statements (CSRE 2400).
- CPA Canada's Audit & Assurance Alert: [Comparison between CSRE 2400 and the 8000 Series](#)
- [Review Engagement Practitioner Client Briefing](#) helps clients understand what they need to know regarding the new review engagement standard
- [Professional development courses](#) available through CPA Ontario
- Review engagement checklists for CSRE 2400 in the [Professional Engagement Guide](#)
- Practice Advisory Services. For further guidance, members are encouraged to contact a Practice Advisor at CPA Ontario:
  - Phone: 416 962.1841, ext. 4456 or 1 800 387.0735, ext. 4456
  - Email: [practiceadvisory@cpaontario.ca](mailto:practiceadvisory@cpaontario.ca) or [memberadvisory@cpaontario.ca](mailto:memberadvisory@cpaontario.ca)