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Acceptance and Continuation Considerations in a Review Engagement

This is the fifth 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.

ACCEPTANCE AND CONTINUATION CONSIDERATIONS IN A REVIEW ENGAGEMENT

This article discusses the importance of a number of factors that affect the decision to accept a new review engagement or continuing with an existing review engagement. CSRE 2400, paragraph 27, states that a practitioner shall not accept (unless required by law or regulation) a review engagement if:

- The practitioner is not satisfied that there is a rational purpose for the engagement, or that a review engagement would be appropriate in the circumstances;
- The practitioner has reason to believe that relevant ethical requirements, including independence, will not be satisfied;
- The practitioner's preliminary understanding of the engagement circumstances indicates that information needed to perform the review engagement is likely to be unavailable or unreliable;
- The practitioner has cause to doubt management's integrity such that it is likely to affect proper performance of the review; or
- Management or those charged with governance impose a limitation on the scope of the practitioner's work in the terms of a proposed review engagement such that the practitioner believes the limitation will result in the practitioner disclaiming a conclusion on the financial statements.

The acceptance and retention of a review engagement should be documented in the file annually. There are also a number of preconditions that must be met, such as determining the acceptability of the financial reporting framework being applied, ensuring management acknowledges and understands its responsibilities in respect of the preparation of the financial statements, as well as cooperation from management by providing the practitioner with unrestricted access to all information relevant to the engagement. These preconditions are not reviewed in this article.

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FACTORS TO CONSIDER FOR CLIENT ACCEPTANCE OR CONTINUATION

Purpose of the Engagement

Clients may wish to use the financial statements for different purposes. It is possible that for some uses the client may be inadvertently or deliberately implying that more reliance can be placed on the review work done than is appropriate. This can be the case when clients are applying for large loans or supplying information to a bank where restrictive covenants are in place and lenders are placing increased reliance on the financial statements. This may be a situation where the practitioner should not accept the engagement and should possibly encourage the client to request an audit or special purpose report.

Ethical Considerations

Assessing independence and other ethical requirements is an essential step that should be performed early on in the client acceptance or continuation phase of the review engagement and should be documented in the file. For many small clients, the practitioner will propose journal entries and draft the financial statements. It is essential that the practitioner recognizes the resulting self-review threat to their independence and takes appropriate steps to safeguard against this threat. (This assumes the threat is insignificant enough that the practitioner is not prohibited from accepting or continuing with the engagement.) A common, useful safeguard is to request that management approves the journal entries by signing a copy of the entries.

Management's Integrity

An assessment of management's integrity is essential to a review engagement in order to determine the amount of reliance that can be placed on enquiry and analytical procedures and how much additional work will need to be performed.

For new engagements, it is often difficult to establish management's integrity since it is likely the accountant does not have a prior relationship with the company or management. However, one suggestion is to perform some due diligence with respect to the company and its management before accepting a new client. Due diligence procedures could include an Internet search of the company and management, contacting the Better Business Bureau to determine if any complaints have been filed against the company, and contacting the predecessor accountant. Rule 302 *Communication with Predecessor* of the CPA Code of Professional Conduct states that when a public accountant is considering accepting a new engagement, reasonable steps should be made to communicate with the predecessor accountant and enquire whether there are any circumstances that should be taken into account that might influence the decision whether or not to accept the engagement.

Scope Limitations

Any limitations placed on a practitioner regarding the work to be performed in a review engagement should immediately raise concerns about the suitability of a review engagement for the client. This would include, among other things, restricted access to information such as opening balances, unrealistic deadlines, or loss of trust in the client. In such situations, the practitioner must carefully review their position and if the practitioner ultimately accepts the engagement, the reasons for the decision need to be carefully and clearly documented. If the practitioner knows from the start that a disclaimer of opinion is going to be required due to a scope limitation, the review engagement should not be accepted.

CONCLUSION

The practitioner needs to be satisfied that his or her client acceptance or continuation decisions meet the requirements of CSRE 2400, paragraph 27.

RESOURCES AND TOOLS

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

- Guide to Review Engagements (CSRE) 2400. In addition to being a useful guide in general, Appendix B discusses factors to consider for client acceptance or continuation.
- 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 or memberadvisory@cpaontario.ca.