

Evaluating and Communicating Preconditions for Accepting a Review Engagement

This is the fourth 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.

PRECONDITIONS FOR ACCEPTING A REVIEW ENGAGEMENT

This article outlines the preconditions that a practitioner needs to evaluate and communicate to a client before accepting a review engagement. These preconditions are outlined in CSRE 2400 paragraph 28 and require that, prior to accepting a review engagement, the practitioner shall:

- Determine that there is an acceptable financial reporting framework for preparing the financial statements; and
- Obtain the agreement of management that it acknowledges and understands its responsibilities for:
 - Preparation of the financial statements in compliance with the financial reporting framework including, where relevant, their fair presentation;
 - Internal control that management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
 - Providing the practitioner with:
 - Access to all information, of which management is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - Additional information that the practitioner may request from management for the purpose of the review; and
 - Unrestricted access to persons within the entity from whom the practitioner determines it necessary to obtain evidence.

These preconditions are further discussed below.

Management's Responsibility for Compliance with an Acceptable Financial Reporting Framework (FRF)

Small clients sometimes make the mistake of assuming that the practitioner is responsible for the preparation and fair presentation of the financial statements in accordance with the FRF as described in the preface to the CPA Canada Handbook – Accounting. However, it is management's responsibility to select the appropriate FRF (based on law, regulation or the needs of the users of the financial statements) and to ensure compliance with the selected FRF. This responsibility is acknowledged in an engagement letter together with a discussion ensuring that the client understands their responsibilities.

Management's Responsibility for Internal Controls

When a practitioner assists the client by helping with the preparation of the financial statements, the practitioner must ensure that management acknowledges its responsibility for internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. It is important to remember that management must take ownership of, and approve, the financial statements. This can only be done if management is fully aware of this responsibility. Often internal controls in smaller entities are limited due to the lack of segregation of duties. As a result, senior management may authorize all transactions and review balances with respect to bank accounts, accounts receivable and accounts payable. In these situations, do not overlook the possibility of management overriding the limited number of internal controls that may exist. While the practitioner is not required to test internal controls in a review engagement, the practitioner must ensure that management is fully aware of their responsibility regarding internal control. If there is any doubt then the practitioner should not be accepting the engagement.

Unrestricted Access to Information and Client Personnel

It is important for management to understand that the practitioner will require unrestricted access to all information relevant to the financial statements and full communication with all levels of staff in an entity.

ENGAGEMENT LETTER

The engagement letter establishes the scope for the review and clarifies the understanding between management and the practitioner. The engagement letter discusses management's responsibilities for the preparation of the financial statements in compliance with the financial reporting framework, for internal control

and providing the practitioner with access to information as outlined in CSRE 2400 paragraph 28 with respect to preconditions for accepting a review engagement. As a best practice, the engagement letter should be obtained every year to ensure that the preconditions for accepting a review engagement are met. According to CSRE 2400 paragraph 36, on recurring review engagements the practitioner shall evaluate whether circumstances, including changes in the engagement acceptance considerations, require the terms of engagement to be revised and whether there is a need to remind management or those charged with governance, as appropriate, of the existing terms of engagement.

A full discussion with management of all the implications of the engagement letter should be made to ensure that management fully understands their responsibilities in terms of the letter. These discussions should be documented. Do not assume that when management signs the engagement letter they necessarily understand the full extent of their responsibilities. This is a vital piece of the required communication between the practitioner and management.

CONCLUSION

Practitioners need to evaluate and communicate to clients preconditions outlined in CSRE 2400 paragraph 28 before accepting a review engagement.

For further guidance please refer to the resources and tools below.

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, please refer to Exhibit 3.3-1 which discusses preconditions for accepting a review engagement.
- 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](#). The purpose of the client briefing is to help clients understand what they need to know regarding the new review engagement standard.
- Professional development courses available through CPA Ontario.
- Canadian Professional Engagement Manual (C-PEM), which contains review engagement checklists for CSRE 2400.

- Practice Advisory Services. For further guidance, members are encouraged to contact a Practice Advisor:
 - Phone: 416 962.1841, ext. 4456 or 1 800 387.0735, ext. 4456.
 - Email: practiceadvisory@cpaontario.ca or memberadvisory@cpaontario.ca.