

What to expect from Canada's changing review engagement standard

OVERVIEW

The new Canadian Standard for Review Engagements (CSRE) 2400, *Engagements to Review Historical Financial Statements*, becomes effective for periods ending on or after December 14, 2017.

This new standard will change some of the communications you've received in past review engagements, as well as some of the questions you'll be asked by your Grant Thornton team.

To help prepare for these changes, this document summarizes what you can expect from the new review engagement standard in the following areas:

- new letters
- additional communications
- additional and/or different discussions and inquiries from your Grant Thornton team
- a revised review engagement report

New letters

Under the new standard, every review engagement will need a new engagement letter. The primary change you can expect to see will be a reference that the engagement will now be performed under Review Engagements (CSRE) 2400, *Engagements to Review Historical Financial Statements*.

Similar changes can be expected in your management representation letter. The clarified standard requires written representations to be dated as near as practical to the Grant Thornton review report, however the new standard now explicitly prohibits management representations from being dated after the review engagement report.

Additional communications

The new review engagement standard now includes a greater emphasis on communication with you as management and with "those charged with governance," if separate in your organization. Specifically:

- Any misstatements accumulated during our review will be communicated to you. The new standard requires that we explicitly request that you as management correct those misstatements. Ultimately, the financial statements are yours, and the choice of which accounting entries to make is therefore yours.
- In your management representation letter, you will now see the new requirement for a written representation that you believe

the effects of any uncorrected misstatements are immaterial, individually or in aggregate, to the financial statements as a whole. Your Grant Thornton engagement partner can discuss the term "immaterial" with you and assist you with how it can be assessed.

Additional and/or different discussions and inquiries from your Grant Thornton team

The new standard focuses on areas where material misstatements are likely to occur. This includes specific requirements as to what inquiry and analytical procedures your Grant Thornton team needs to perform. Depending on the nature of your organization, you may find you're being asked different questions on the elements of your financial statements compared to prior years. In anticipation of the release of the new standard, Grant Thornton has implemented elements of the new requirements already. Therefore, the impact of this change will vary depending on your organization.

The review engagement report

Some of the biggest impacts of the standard will come from changes to the review engagement report. These include:

- The new report now summarizes both your responsibility as management and the responsibility of Grant Thornton. It also includes a positive statement as to what a review engagement is—a limited assurance engagement—as opposed to merely describing what it is not

(i.e., “not an audit”). It then provides Grant Thornton’s conclusion on the financial statements.

- In certain circumstances, the review engagement report may also contain “emphasis of matter” paragraphs or “other matter” paragraphs:
 - **“Emphasis of matter” paragraphs:** These paragraphs are intended to draw attention to a certain matter in the financial statements. They will be included if your Grant Thornton team considers it necessary to draw a user’s attention to a matter presented in the financial statements that is of such importance that it is fundamental to the user’s understanding of the financial statements. Possible examples would be when the financial statements are prepared for a special purpose or if there is material uncertainty about the ability of the organization to continue as a going concern.
 - **“Other matter” paragraphs:** These paragraphs are intended to draw attention to a specific matter, other than those presented in the financial statements, that in the practitioner’s judgment is relevant to a user’s understanding of the review. Two common examples include when the prior-period financial statements were reviewed by a predecessor practitioner or when the prior-period financial statements were not reviewed or audited.

If it appears that either of these two paragraphs may be necessary, your Grant Thornton team will aim to discuss it with you before the review report is finalized. Other changes may be applicable depending on circumstances specific to your organization and the review engagement. For illustrative purposes, an example of the new unmodified review engagement report is included in the appendix.

Preparing for the transition

Representing the largest change in review engagements in years, this transition to the new Canadian Standard for Review Engagements will impact all reviews, whether you’re an established, stable organization or a rapidly growing start-up. As part of our uncompromising commitment to excellence in our professional services, we have continued to invest in world-class training and the further development of our state-of-the-art tools to prepare for these changes. As your business advisors, we know the importance of truly understanding your industry and business, and we aim to reflect that as we transition your review to the new standard as efficiently as possible.

We look forward to discussing the new review engagements standard with you and, should you have any questions, please don’t hesitate to contact your Grant Thornton team.



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APPENDIX: Sample review engagement report

For illustrative purposes, an example of the new unmodified review engagement report is included below.

We have reviewed the accompanying financial statements of ABC Company that comprise the balance sheet as at December 31, 20XX, and the statements of income, retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner’s responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with Canadian generally accepted standards for review engagements, which require us to comply with relevant ethical requirements.

A review of financial statements in accordance with Canadian generally accepted standards for review engagements is a limited assurance engagement. The practitioner performs procedures—primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures—and evaluates the evidence obtained.

The procedures performed in a review are substantially less in extent than, and vary in nature from, those performed in an audit conducted in accordance with Canadian generally accepted auditing standards. Accordingly, we do not express an audit opinion on these financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial statements do not present fairly, in all material respects, the financial position of ABC Company as at December 31, 20XX, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

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