Engagements to Review Historical Financial Statements

Basis for Conclusions

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CSRE 2400

CPA Canada Handbook – Assurance

Prepared by the staff of the Auditing and Assurance Standards Board

BASIS FOR CONCLUSIONS
CANADIAN STANDARD ON REVIEW ENGAGEMENTS (CSRE) 2400, Engagements to Review Historical Financial Statements

This Basis for Conclusions has been prepared by staff of the Auditing and Assurance Standards Board (AASB). It relates to, but does not form part of, Canadian Standard on Review Engagements (CSRE) 2400, *Engagements to Review Historical Financial Statements*.

Purpose of this Basis for Conclusions

This Basis for Conclusions provides a brief summary of the AASB's objectives in developing CSRE 2400, the public exposure and approval steps for this project and how the AASB dealt with significant matters arising from comments received in response to its Exposure Drafts. This information is set out below.

Background

CSRE 2400 replaces the following existing review engagement standards and guidelines for financial statements and other historical financial information (referred to in this document collectively as "the 8000 series"):

(a) Section 8100, GENERAL REVIEW STANDARDS;

(b) Section 8200, PUBLIC ACCOUNTANT'S REVIEW OF FINANCIAL STATEMENTS;

(c) Section 8500, REVIEWS OF FINANCIAL INFORMATION OTHER THAN FINANCIAL STATEMENTS;

(d) ASSURANCE AND RELATED SERVICES GUIDELINE AuG-20, Performance of a Review of Financial Statements in Accordance with Sections 8100 and 8200; and

(e) ASSURANCE AND RELATED SERVICES GUIDELINE AuG-47, Dating the Review Engagement Report on Financial Statements.

CSRE 2400 replaces Section 8100, GENERAL REVIEW STANDARDS. However, Section 8100 will be retained until completion of the AASB's project to replace Section 8600, REVIEWS OF COMPLIANCE WITH AGREEMENTS AND REGULATIONS, since Section 8600 is linked to Section 8100.

The project to replace the 8000 series began in 2009. Around the same time, the International Auditing and Assurance Standards Board (IAASB) also began a project to revise their existing International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Historical Financial Statements*.

From 2009 through 2012, the AASB's main activities on this project included:

(a) recruiting a task force to assist the AASB with analysis and recommendations related to development of the new Canadian standard on review engagements;

(b) seeking the views of practitioners, through an on-line survey and roundtable discussion sessions across Canada, on how review engagements are performed in practice and what concerns they have with the 8000 series;

(c) developing and issuing AuG-47, Dating the Review Engagement Report on Financial Statements, to address consistency issues with the report dating convention introduced in auditing standards;

(d) reviewing key issues pertaining to the development of ISRE 2400 (Revised) and providing comments to the CPA Canada representative on the IAASB to consider raising at IAASB meetings — the CPA Canada representative on the IAASB was also Chair of the IAASB's Review and Compilation Engagements Task Force; and

(e) seeking the views of practitioners, through an Invitation to Comment, on the proposals in the IAASB's Exposure Draft of ISRE 2400 (Revised), and on whether or not it would be appropriate to adopt it in Canada.

In June 2013, the AASB issued an Exposure Draft of CSRE 2400 (ED-2400) with a comment period of 105 days, which was extended by a further 30 days due to the level of interest in the project. The AASB also consulted widely on ED-2400, including a webinar and several roundtable sessions across Canada. Twenty-two responses to ED-2400 were received (identified below). Subsequently, the AASB staff and the review engagement task force met with representatives from accounting firms and other bodies to better understand the concerns expressed in the responses received.

Some respondents and roundtable session participants raised significant concerns about certain proposals in ED-2400. The AASB and its task force spent a considerable amount of time considering the concerns raised and determining appropriate solutions to them. The AASB determined that the changes needed to respond to concerns were significant. Consequently, in May 2015, the AASB issued a Re-exposure Draft of CSRE 2400 (Re-ED 2400). Nineteen responses to Re-ED 2400 were received (identified below).

The AASB approved CSRE 2400 as a final standard at its meeting on November 30, 2015. The Auditing and Assurance Standards Oversight Council confirmed that the AASB followed due process in developing CSRE 2400 prior to its issuance in the CPA Canada Handbook – Assurance.

Significant Matters Considered by the AASB in Developing CSRE 2400

A. Basing CSRE 2400 on ISRE 2400 (Revised)

Development of ISRE 2400 (Revised)

In September 2012, the IAASB issued ISRE 2400 (Revised) as a final standard, effective for periods ending on or after December 31, 2013.

The IAASB's objective in developing ISRE 2400 (Revised) was to address marketplace demand. Around the world, and particularly in Europe, lawmakers have taken steps to relax mandatory audit requirements for certain types of incorporated entities, particularly, though not exclusively, in the small and mid-sized entities (SMEs) sector. The IAASB anticipated an increase in demand for review engagements as a consequence and felt that existing ISRE 2400 was out of date. By contrast, Canada, and certain other countries, have a well-established marketplace for review engagements.

Development of CSRE 2400

The AASB's key objective in replacing the 8000 series was to develop a standard that would meet the needs of the Canadian environment while, if possible, maintaining consistency with ISRE 2400 (Revised). Canadian practitioners who perform review engagements may not perform many, or any, audits. Therefore, it is important that CSRE 2400 be self-standing, to the extent possible, so practitioners can perform review engagements without having to refer to auditing standards.

The AASB concluded that ISRE 2400 (Revised) should serve as a base for CSRE 2400. The extensive experience Canadian practitioners have with review engagements allowed the AASB to identify opportunities for amending the wording of ISRE 2400 (Revised) in developing CSRE 2400.

The Canadian amendments to ISRE 2400 (Revised) include the following:

(a) adding requirements and supporting application and other explanatory material;

(b) changing the ordering of paragraphs to reflect a more logical flow;

(c) addressing circumstances that are not uncommon in review engagements performed in Canada;

(d) improving the understandability and clarity of the requirements; and

(e) making explicit requirements that were implied in ISRE 2400 (Revised).

The majority of review engagements are performed on financial statements of Canadian private entities that do not have stakeholders outside of Canada. However, there are cases where a practitioner performing a review engagement in accordance with

CSRE 2400 may need to comply with ISRE 2400 (Revised). Accordingly, to best meet the needs of all practitioners, the AASB concluded that the wording of CSRE 2400 should contain:

(a) all the requirements and explanatory and other application material contained in ISRE 2400 (Revised); and

(b) Canadian amendments that are consistent with the requirements and explanatory and other application material in ISRE 2400 (Revised).

Key differences between CSRE 2400 and ISRE 2400 (Revised) are provided in the Appendix to this Basis for Conclusions.

B. Significant Matters Arising from Comments in Response to ED-2400 and Re-ED 2400 Affecting CSRE 2400

Scope

Reviews of Interim Financial Statements

1. In response to a comment received on ED-2400, Re-ED 2400 proposed an expanded scope that covered reviews of interim financial statements, except when an auditor of an entity reviews interim financial statements in the circumstances described in Section 7060, AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS. This expanded scope aligns with the scope of Section 8200, PUBLIC ACCOUNTANT'S REVIEW OF FINANCIAL STATEMENTS.

2. The majority of respondents were supportive of the expanded scope of Re-ED 2400. However, one respondent disagreed that certain reviews of interim financial statements that have a similar purpose to that of a review under Section 7060 (for example, assisting a specific party in discharging its responsibilities) should be covered under CSRE 2400.

3. The AASB decided not to make an amendment. The AASB believes that it would not be in the public interest to exclude certain types of reviews of interim financial statements from the scope of CSRE 2400 without providing practitioners with another standard to refer to when performing such engagements. The scope of Section 7060 has a narrowly defined purpose of assisting the entity's audit committee in discharging its responsibilities with respect to interim financial statements that are to be issued under the provisions of securities legislation. The AASB noted that the inclusion of other types of circumstances within the scope of Section 7060 would be an important consideration if and when Section 7060 is revised in the future.

Reporting on Summary Financial Statements

4. One respondent suggested that the scope of CSRE 2400 indicates whether or not it covers reporting on summary financial statements.

5. The AASB decided not to make an amendment. The objective of an engagement to report on summary financial statements that are derived from a complete set of financial statements is different from the objective of an engagement to review a complete set of financial statements.

Definitions

6. One respondent suggested that the "Definitions" section should include a description of the terms "fair presentation framework" and "compliance framework" as they are used throughout CSRE 2400.

7. The AASB agreed to add descriptions of the terms "fair presentation framework" and "compliance framework" under the definition of "general purpose framework" in paragraph 15(g) of CSRE 2400. The AASB also added the following other terms to the "Definitions" section in light of their importance to a proper understanding of the CSRE:

   (a) applicable financial reporting framework;

   (b) date the financial statements are issued;

   (c) Emphasis of Matter paragraph;

   (d) initial review engagement; and

   (e) Other Matter paragraph.

8. Where appropriate, the AASB drew definitions from the Glossary of Terms related to the auditing standards in the CPA Canada Handbook – Assurance and revised those definitions as necessary for review engagements.

Concept of "Limited Assurance" and Evidence Required to Obtain Limited Assurance

9. Consistent with ED 2400, Re-ED 2400 explained that the practitioner's objective in a review of financial statements is to obtain limited assurance about whether the financial statements as a whole are free from material misstatements and that sufficient appropriate evidence is required in order to obtain limited assurance and to support the practitioner's conclusion. The term "limited assurance" is defined in CSRE 2400.

10. Several respondents were of the view that there is a lack of clarity in CSRE 2400 regarding the extent and nature of work required to obtain limited assurance to support the practitioner's conclusion. Reasons given included:

    (a) The definition of "limited assurance" is vague and, therefore, the level of assurance a practitioner is required to achieve in a review engagement is unclear.

(b) The use of the term “sufficient appropriate evidence” implies that a review engagement entails gathering evidence of a similar nature and extent to that in audit engagements.

11. Various suggestions were provided by respondents as to how the required work effort under CSRE 2400 could be made clearer, including:

    (a) amending the definition of “limited assurance” to be more precise about the targeted level of assurance a practitioner should be aiming to achieve in a review engagement;

    (b) avoiding using the words “sufficient” and “appropriate” to characterize evidence;

    (c) replacing the term “sufficient appropriate evidence” with a different term, such as, “sufficient appropriate results.”;

    (d) continuing to use the term “sufficient appropriate evidence,” but defining it in the context of procedures performed in a review engagement; and

    (e) incorporating the 8000 series concept of “plausibility” into CSRE 2400 on the basis that it more clearly describes the targeted level of assurance in a review engagement.

12. The AASB decided to retain the concept of “limited assurance” throughout CSRE 2400 and not to make amendments to the definition of “limited assurance” in paragraph 15(k) of CSRE 2400 for the following reasons:

    (a) The definition of “limited assurance” is conceptually sound. It appropriately explains its relationship to reasonable assurance and, consistent with what the concept of plausibility was designed to achieve in the 8000 series, highlights that the level of assurance obtained in a review engagement has to be meaningful.

    (b) The level of assurance to be provided by a review engagement is a matter of professional judgment. Defining it with more precision is not practicable.

    (c) The requirements and application and other explanatory material guide the practitioner as to the appropriate work effort required to obtain limited assurance.

    (d) The concept of “limited assurance”, and its definition, is used in other Canadian standards for limited assurance engagements.[1] Removing the concept or changing its definition may create irreconcilable differences with those other standards.

[1] CSAE 3000, *Attestation Engagements Other than Audits or Reviews of Historical Financial Information*, and CSAE 3410, *Assurance on Greenhouse Gas Statement*

(e) ISRE 2400 (Revised) is based on the concept of “limited assurance”. Using a different concept in CSRE 2400 would result in CSRE 2400 no longer being consistent with ISRE 2400 (Revised).

13. The AASB considered, but decided against, incorporating the concept of “plausibility” into CSRE 2400. The AASB believes that including two similar concepts (plausibility and limited assurance) in the same standard would be more confusing than helpful. While the AASB acknowledged that Canadian practitioners have used the concept of “plausibility” for many years and feel a sense of comfort and familiarity around the targeted level of assurance in a review engagement, it does not believe that the concept is a key driver of consistency in work effort. The AASB believes that CSRE 2400, read in its entirety, will appropriately inform practitioners’ professional judgment around the nature and extent of evidence they need to obtain to be able to form a conclusion and issue their report.

14. The AASB decided to retain the term “sufficient appropriate evidence” throughout CSRE 2400 for the following reasons:

    (a) An essential element of a review engagement, as with any assurance engagement, is that it is evidence based. Replacing the term “evidence” with “results”, as suggested by a few respondents, would not capture all the evidence needed to form a conclusion on the financial statements. For example, results of inquiry and analytical procedures would not encompass evidence such as written representations.

    (b) Evidence must be both sufficient and appropriate for the practitioner to form a conclusion and to issue a report on the financial statements in the form required by CSRE 2400.

15. ED-2400 proposed Canadian amendments to clarify the concept of “sufficient appropriate evidence”. Respondents found these amendments more confusing than helpful and, therefore, the AASB removed it in developing Re-ED 2400. The AASB believes that paragraphs 5, 6, 46, A13 and A89 of CSRE 2400 include sufficient material to guide understanding and application of the term “sufficient appropriate evidence” and no additional amendments in this regard is necessary. These paragraphs explain that:

    (a) Sufficient appropriate evidence is obtained primarily from performing inquiry and analytical procedures, and if necessary, by performing additional procedures.

    (b) Evidence may also include information obtained from other sources.

    (c) A practitioner does not have a responsibility to evaluate the design of controls, to determine whether they have been implemented, or to evaluate their operating effectiveness.

The Practitioner's Work Effort

Obtaining an Understanding of the Entity and Its Environment

16. Several respondents commented that the proposed guidance in ED-2400 pertaining to understanding internal control over financial reporting inappropriately implied that a review engagement involves an evaluation of control risk.

17. The AASB accepted those comments in developing Re-ED 2400 and removed much of the added Canadian guidance that was a source of confusion in ED-2400. To eliminate ambiguity about the practitioner's required understanding of internal control in a review engagement, the AASB included guidance in paragraph A89 of CSRE 2400 emphasizing that the practitioner does not have a responsibility to evaluate the design of controls, to determine whether they have been implemented, or to evaluate their operating effectiveness.

Determining Materiality in Reviews of Interim Financial Statements

18. In light of the expanded scope that includes reviews of interim financial statements, the AASB included guidance in paragraph A82 of CSRE 2400 on determining materiality for reviews of interim financial statements. While the majority of respondents agreed with this guidance, some expressed the following concerns:

    (a) It is an unnecessary addition as there is sufficient guidance elsewhere in the proposed CSRE.

    (b) It could be simplified and shortened.

    (c) The possible effect of misstatements on specific users is not ordinarily considered in determining materiality and, therefore, the guidance should not focus on specific users.

19. A few respondents suggested the following additional guidance:

    (a) Examples of materiality benchmarks and percentages applied to benchmarks for reviews of interim financial statements.

    (b) Guidance to recognize that materiality for reviews of interim financial statements may be lower than materiality for reviews of annual financial statements of that entity.

20. In finalizing CSRE 2400, the AASB decided:

    (a) Not to amend paragraph A82 of CSRE 2400. — The majority of respondents indicated that they found this guidance helpful. The guidance focus on users is appropriate as it is common for review of interim financial statements to be performed for a specific purpose. It appropriately draws the practitioner's attention, by means of an example, to matters a practitioner may consider when determining materiality for these engagements.

(b) Not to provide examples of materiality benchmarks. — The examples in paragraph A77 of CSRE 2400 are sufficient.

(c) Not to provide examples of percentages to be applied to materiality benchmarks — Such examples would be too prescriptive for inclusion in a standard.

(d) To add new guidance in paragraph A83 of CSRE 2400. — The guidance explains that the percentage applied to a chosen benchmark involves the exercise of professional judgment about the size of misstatement that will be considered material in the interim financial statements. It also explains that there may be circumstances in which misstatements would be considered material for the interim period but would not be expected to be material for the annual period, resulting in a lower materiality for interim than for annual financial statements of that entity.

Identifying Areas in the Financial Statements Where Material Misstatements Are Likely to Arise

21. ED-2400 contained a proposed requirement and guidance on the practitioner's responsibility to identify risks that are likely to result in material misstatement of the financial statements. Several respondents considered the use of the term "risk" problematic as it is generally associated with the work effort undertaken in an audit engagement. They also felt that ED-2400 implied that a practitioner would be responsible for performing a risk assessment, and identifying and assessing risks at the assertion level. They suggested removal of the term "risk" and the related guidance.

22. The AASB accepted those comments in developing Re-ED 2400 and made the following revisions:

    (a) Replaced all references to "risks that are likely to result in material misstatement of the financial statements" with the ISRE 2400 wording "areas in the financial statements where material misstatements are likely to arise."

    (b) Redrafted the requirement to read: "Based on the practitioner's understanding, the practitioner shall identify areas in the financial statements where material misstatements are likely to arise."

    (c) Removed the proposed Canadian amendments related to the concept of "risk" that was a source of confusion in ED-2400.

23. Overall, respondents supported the revised proposals in Re-ED 2400. However, some expressed concern that the phrases "areas in the financial statements" and "likely to arise" are vague and without further guidance it is unclear as to what is actually required of the practitioner. The AASB decided not to define or describe these phrases in CSRE 2400 for the following reasons:

(a) It is not practicable to do so given that an area in the financial statements can be broad or narrow, depending on the judgment of the practitioner.

(b) What is likely to arise is best left to the practitioners' professional judgment. Any definition or description that involves a quantitative approach would imply a level of precision that is rarely, if ever, achievable in practice.

24. A few respondents expressed the view that the requirement in paragraph 45 of CSRE 2400 to identify areas in the financial statements where material misstatements are likely to arise should be removed. In their view, it is already covered by the following other requirement: "The practitioner shall obtain an understanding of the entity and its environment, and the applicable financial reporting framework, to identify areas in the financial statements where material misstatements are likely to arise and thereby provide a basis for designing procedures to address those areas." The AASB decided to retain the requirement in paragraph 45. The AASB believes that in the absence of this explicit requirement, there may be a risk that practitioners would not document the identified areas in the financial statements where material misstatements are likely to arise. The AASB also believes that the requirement in paragraph 45 is sufficiently clear on its own, without the need for related guidance.

25. One respondent expressed the view that if there is an explicit requirement that a practitioner identify areas in the financial statements where material misstatements are likely to arise, then there should also be a requirement for the practitioner to identify all material items in the financial statements. Paragraph 46 of CSRE 2400 requires both types of items to be addressed in designing and performing procedures. The AASB decided not to make an amendment. A practitioner would identify and document items material to the financial statements when determining materiality for the financial statements in complying with the requirement in paragraph 41 of CSRE 2400. In contrast, areas in the financial statements where material misstatements are likely to arise may include items below materiality or that do not relate to financial statement line items. Those areas may not be documented unless the practitioner is explicitly required to do so as intended by paragraph 45 of CSRE 2400.

Analytical Procedures

26. A few respondents expressed the view that the application guidance in paragraph A102 of CSRE 2400 is inappropriate because it suggests that the approach to performing analytical procedures may include complex analysis using statistical techniques and development of expectations. In their view, such guidance implies the need for a practitioner to obtain a greater breadth and depth of knowledge than a practitioner would commonly obtain when performing a review engagement.

27. The AASB decided not to make amendments for the following reasons:

    (a) It meets the AASB's objective to include all the requirements and application guidance of ISRE 2400 (Revised) in the CSRE.

    (b) While a review engagement would not normally entail performing complex analysis using statistical techniques, the paragraph reflects a range of methods that may be used to perform analytical procedures. Complex analysis using statistical techniques represents the upper end of the range in terms of possible work effort.

    (c) In a review engagement, a practitioner may compare recorded amounts, or ratios developed from recorded amounts, to expectations developed by the practitioner from information obtained from relevant sources.

Initial Review Engagements — Opening Balances

28. In response to a comment received on ED-2400, the AASB included a requirement in paragraph 55 of CSRE 2400 dealing with performing an initial review engagement, requiring the practitioner to obtain sufficient appropriate evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements.

29. The majority of respondents agreed with this requirement. However, one respondent was of the view that this requirement is redundant. In this respondent's view, a practitioner who possesses competence in assurance skills and techniques, and competence in financial reporting (as required in paragraph 22), would know to consider opening balances when complying with paragraphs 76 (forming a conclusion) and 77 (evaluating evidence, including consideration of uncorrected misstatements of prior periods).

30. A few respondents expressed concern that the wording of the proposed requirement may imply that a practitioner is required to form a positive conclusion on whether the opening balances contain misstatements. They felt that the requirement suggested a level of work effort beyond what is appropriate in a review engagement. Others expressed the view that further guidance or examples should be provided to assist practitioners to understand the nature and extent of procedures to obtain sufficient appropriate evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements.

31. The AASB concluded that the requirement in paragraph 55 of CSRE 2400 should be retained without amendments to the wording. This requirement provides an important reminder to practitioners that they need to consider opening balances in initial review engagements. The requirement in paragraph 22 of CSRE 2400 for the practitioner to possess competence in assurance skills and techniques, and competence in financial reporting, does not obviate the need for CSRE 2400 to

address circumstances, such as opening balances in initial review engagements, that are not uncommon in review engagements. Further, the wording of the requirement in paragraph 55 is not meant to suggest a more expansive work effort for opening balances than for other balances in the financial statements. Its focus is on the practitioner's need to obtain sufficient appropriate evidence and not on forming a conclusion on the opening balances. The evidence obtained on the opening balances in an initial review engagement is considered in forming the conclusion on the current period's financial statements.

32. The AASB concluded not to provide further guidance to the requirement in paragraph 55 of CSRE 2400 regarding the nature and extent of procedures that may be carried out. These are best left to practitioners' professional judgment and exercised on a case-by-case basis.

Forming a Conclusion

Modifying the Conclusion When Financial Statements Prepared in Accordance with the Requirements of a Fair Presentation Framework Do Not Achieve Fair Presentation

33. One respondent suggested that CSRE 2400 include a requirement that addresses the practitioner's responsibility to modify the conclusion on the current period's financial statements when financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation.

34. The AASB added a requirement in paragraph 83 of CSRE 2400. Addressing this matter supports CSRE 2400 being a self-standing standard so practitioners do not have to refer to auditing standards.

The Practitioner's Report

Length and Format of the Report

35. Several respondents expressed the following concerns with the proposed practitioner's report:

    (a) The format is similar in appearance to that of an auditor's report. Consequently, users may confuse the practitioner's report for a review engagement with an auditor's report for an audit engagement.

    (b) The increased length, compared to the report required under the 8000 series, may imply that more assurance is being provided by a CSRE 2400 review engagement than by an 8000 series review engagement.

36. A few respondents encouraged the AASB to amend the practitioner's report to better distinguish it from an auditor's report. Some suggested increasing the emphasis in the report on how a review is different from an audit. For example, one respondent suggested repositioning the paragraph that describes the limitations of the engagement, which appears in the third paragraph under the heading "Practitioner's Responsibility," to the first paragraph of the report.

37. The AASB decided not to amend the length and format of the practitioner's report for the following reasons:

    (a) It would result in deleting information that is important to users.

    (b) The appearance of the practitioner's report unavoidably bears a resemblance to the auditor's report as some required reporting elements are common to both types of assurance engagements.

    (c) The practitioner's report is factual and informative and, therefore, users should not be misled.

Practitioner's Responsibility

38. Several respondents expressed the following views on the wording under the heading "Practitioner's Responsibility" in the illustrative practitioner's reports:

    (a) A reference to CSRE 2400 would likely be meaningless to most users and may lead some to believe that the work effort was greater than actual, resulting in undue reliance being placed on the reviewed financial statements.

    (b) The wording that informs users about CSRE 2400 requiring the practitioner to comply with relevant ethical requirements is unnecessary because compliance is implicit in the work carried out by a member of a professional body.

39. The AASB decided the following in finalizing the practitioner's report:

    (a) To replace the references to "CSRE 2400" with "Canadian generally accepted standards for review engagements." — This change is also a practical solution to the issue arising in the year of transitioning to CSRE 2400 from the 8000 series. A reference to "CSRE 2400" would incorrectly imply that the prior year's financial statements have been also reviewed using CSRE 2400. A reference to "Canadian generally accepted standards for review engagements" would cover both the current year's financial statements that have been reviewed using CSRE 2400 and the prior year's financial statements that been reviewed using the 8000 series.

    (b) To retain the wording that informs users about CSRE 2400 requiring the practitioner to comply with relevant ethical requirements. — This wording is factual and appropriately ties into the title of the report: "Independent Practitioner's Review Engagement Report." It also provides greater transparency to users.

Modified Conclusion in the Prior Period Is Unresolved

40. In response to a comment received on ED-2400, the AASB included a requirement and application guidance in paragraphs 94(i)(iii) and A150-A152 of CSRE 2400 dealing with reporting in circumstances when there was a modified conclusion in the prior period's practitioner's report and the matter giving rise to that modified

conclusion is unresolved. The AASB believes that reporting under these circumstances in a review engagement should follow the same principle as in an audit engagement.

41. Respondents agreed with the AASB's proposals. A few respondents suggested that CSRE 2400 include illustrative examples of what such reporting might look like. The AASB agreed with the respondents and added examples in illustrations 5 and 8 of Appendix 3.

Prior Period Financial Statements Reviewed or Audited by a Predecessor Practitioner

42. In response to a comment received on ED-2400, the AASB included a requirement in paragraph 100 of CSRE 2400 dealing with reporting in circumstances when another practitioner has reported on the prior period financial statements. The AASB believes that reporting under these circumstances in a review engagement should follow the same principle as in an audit engagement.

43. Respondents agreed with the AASB's proposal. A few respondents suggested that CSRE 2400 include an illustrative example of what such reporting might look like. The AASB agreed with the respondents and added an example in Illustration 2 of Appendix 3.

Prior Period Financial Statements Not Subject to a Review Engagement or an Audit Engagement

44. In response to a comment received on ED-2400, the AASB included a requirement in paragraph 101 of CSRE 2400 dealing with reporting in circumstances when prior period financial statements were not subject to a review engagement or an audit engagement. The AASB believes that reporting under these circumstances in a review engagement should follow the same principle as in an audit engagement.

45. Respondents agreed with the AASB's proposal. One respondent suggested that CSRE 2400 include an illustrative example of what such reporting might look like. The AASB concluded that providing an example of this relatively simple reporting matter would not add significant clarity to CSRE 2400.

Alerting Report Readers that the Financial Statements Are "Unaudited"

46. A few respondents suggested that, consistent with extant Section 8100, GENERAL REVIEW STANDARDS, CSRE 2400 should include a requirement for the practitioner to label each page of the financial statements as being unaudited. The respondents expressed the view that such labeling is an important way to distinguish review engagements from audit engagements.

47. The AASB decided not to make the suggested amendment for the following reasons:

    (a) The financial statements are management's responsibility and it would be inappropriate to mandate that management label their financial statements.

(b) A requirement to label each page of the financial statements as being unaudited would mean that if management refuses to do so the practitioner may need to qualify the report. However, qualifying a report on that basis would be difficult to explain since the financial reporting framework does not require management to label the level of assurance on its financial statements.

48. The AASB considered, but rejected, including application guidance for the practitioner to label each page of the financial statements as being unaudited. Providing a choice to the practitioner in this regard creates a risk of inconsistent reporting and confusion for users.

Subsequent Events

49. One respondent suggested that CSRE 2400 should include guidance on the nature and extent of procedures to be performed between the date of the financial statements and the date of the practitioner's report. The AASB decided not to make an amendment. This matter is appropriately addressed in paragraph 47(e) of CSRE 2400 by requiring that the practitioner inquire about events occurring within that time period.

50. A few other respondents suggested that CSRE 2400 should address work effort and reporting in the circumstance when a practitioner becomes aware of a possible misstatement after the date the financial statements are issued. The AASB agreed with the respondents and added requirements and guidance in paragraphs 62, 64-67 and A115 of CSRE 2400 with respect to:

    (a) reporting if management amends the financial statements:

        (i) after the date of the practitioner's report but before the financial statements are issued; and

        (ii) after the date the financial statements are issued;

    (b) work effort if the practitioner becomes aware of a possible misstatement after the date the financial statements are issued; and

    (c) work effort if management does not amend the financial statements in circumstances where the practitioner believes they need to be amended.

Other Matters

Requesting Management to Correct Identified Misstatements

51. A few respondents suggested that the requirement in paragraph 59 of CSRE 2400 to request management to correct all misstatements accumulated during the review be removed. Respondents expressed the view that it would be time consuming for small and mid-sized companies to correct all misstatements and for the practitioner to document those misstatements.

52. The AASB decided not to make an amendment. The requirement is for the practitioner to request, rather than require, management to correct all misstatements. It is appropriate for management to be made aware of identified misstatements so management can decide which misstatements need to be corrected. Management may decide not to correct certain misstatements because they are not material enough to warrant adjustment.

Using the Work Performed by Others

53. A few respondents expressed concern that the requirement in paragraph 54 of CSRE 2400 regarding use of work performed by others does not provide sufficient guidance about the nature and extent of procedures considered appropriate to meet the requirement.

54. The AASB decided not to add guidance. The AASB noted that there are a few different scenarios in which a practitioner may use the work performed by others. For example, use of the work of an expert engaged by management, use of the work performed by a service organization, and use of the work of another practitioner. The amount of guidance needed to cover each of the scenarios would be significant. The AASB does not believe that the use of the work of others occurs frequently enough in review engagements to warrant inclusion of material in CSRE 2400.

Effective Date

55. Re-ED 2400 proposed that CSRE 2400 be effective for reviews of financial statements for periods ending on or after December 14, 2017. Earlier application is not permitted. The AASB believes that there is less likelihood for users to be confused than if different types of review engagement reports were issued for the same reporting period depending on the circumstances.

56. One respondent expressed the view that the effective date should be for reviews of financial statements for periods beginning on or after December 14, 2016. This would enable consistency of reporting in circumstances when a practitioner is performing a review of interim financial statements as well as a review of the annual financial statements of an entity. Another respondent asked for clarity about which standard would apply to interim periods within a fiscal year ending after December 14, 2017.

57. The AASB decided not to make amendments to the effective date of CSRE 2400. The AASB recognizes that a practitioner may be engaged to perform a review of interim financial statements in the year ending December 14, 2017. In such cases, the practitioner will conduct the interim reviews for the first three quarters using the 8000 series and the interim review for the last quarter and the entire year using CSRE 2400. However, the number of such engagements is far less than review engagements only of annual financial statements. The AASB believes that there is less likelihood for users to be confused since earlier application of CSRE 2400 is not permitted.

List of Respondents to the ED-2400 and Re-ED 2400*

Respondents	ED-2400	Re-ED 2400
Auditor General of Alberta		✓
BDO Canada LLP	✓	✓
Brian Lenzin Professional Corporation	✓	
Cauchon Turcotte Thériault Latouche	✓	
Crowe Soberman LLP	✓	
Crowe BGK S.E.N.C.R.L. LLP		✓
Deloitte & Touche LLP	✓	✓
Donna Pinsky, CPA, CA	✓	
Ernst & Young LLP	✓	✓
Gaviller & Company LLP, Walkerton Office	✓	
Gaviller & Company LLP, Owen Sound Office	✓	
Ginsberg Gluzman Fage & Levitz, LLP		✓
Groupe de travail technique – Certification de l'Ordre des comptables professionnels agréés du Québec		✓
Guimond Lavallée Inc.	✓	
Kingston Ross Pasnak LLP		✓
KPMG LLP	✓	✓
Mallette S.E.N.C.R.L.	✓	✓
MNP LLP	✓	✓
Phil Cowperthwaite, FCPA, FCA	✓	✓
PricewaterhouseCoopers LLP	✓	✓
Raymond Chabot Grant Thornton LLP	✓	✓
RLB LLP	✓	✓
Small Practices Advisory Committee of the Chartered Professional Accountants of Ontario	✓	
Taylor Leibow LLP	✓	✓
The AC Group of Independent Accounting Firms Limited	✓	✓
The Five Canadian Member Firms of Nexia International	✓	
The Forum of Chartered Professional Accountants of British Colombia		✓
WBLI LLP		✓

*1 other respondent to ED-2400 requested confidentiality.

Appendix

Comparison between CSRE 2400 and ISRE 2400 (Revised)

This comparison was prepared by the staff of the Auditing and Assurance Standards Board (AASB) to highlight key differences between Canadian Standard on Review Engagements (CSRE) 2400, *Engagements to Review Historical Financial Statements*, and International Standard on Review Engagements (ISRE) 2400 (Revised), with the same title, issued in September 2012. This comparison is not intended to be a word-for-word reference source. To fully understand the differences between CSRE 2400 and ISRE 2400, readers are encouraged to read the full text of each document. This comparison is not authoritative and is prepared for informational purposes only.

CSRE 2400	ISRE 2400 (Revised)
Scope	
The CSRE includes within its scope review engagements undertaken to report on annual or interim historical financial statements, except when the auditor of an entity reviews its interim financial statements in the circumstances described in Section 7060, *Auditor Review of Interim Financial Statements.*	The ISRE explicitly states that it does not address a review of an entity's interim financial statements performed by a practitioner who is the independent auditor of the entity's financial statements. Such engagements are addressed by ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity.*
Communication with Management and Those Charged with Governance	
The words "management and, where appropriate, those charged with governance" are used to identify those within the entity who should be informed regarding certain matters. These include matters relating to the entity not meeting the preconditions for accepting a review engagement (paragraphs 28-29), and matters relating to subsequent events (paragraph 61(a)). The words "where appropriate" are included on the basis that some matters (for example, subsequent events) should always be discussed with management but not necessarily with those charged with governance.	The words "management or those charged with governance" are used. The words "where appropriate" in ISRE 2400 are excluded.

CSRE 2400	ISRE 2400 (Revised)
Identifying Areas in the Financial Statements Where Material Misstatements Are Likely to Arise	
Based on the practitioner's understanding, paragraph 45 requires the practitioner to identify areas in the financial statements where material misstatements are likely to arise.	No comparable requirement.
Going Concern	
Paragraph 53(a)(i) requires the practitioner to make inquiries about whether management has identified any material uncertainty.	No comparable requirement. The concept of material uncertainty is not addressed.
Paragraph 53(c)(i) requires the practitioner to evaluate whether there is an appropriate basis to support the preparation of financial statements on a going concern basis. Unlike the equivalent requirement in ISRE 2400, paragraph 53(c)(i) does not reflect that there may be circumstances when financial statements may be prepared in accordance with a financial reporting framework that does not include the assumption of an entity's continuance as a going concern. This circumstance would be rare in Canada.	Paragraph 54(b)(i) contain a similar requirement as paragraph 53(c)(i) of CSRE 2400. However, paragraph 54(b)(i) reflects that there may be circumstances when financial statements may be prepared in accordance with a financial reporting framework that does not include the assumption of an entity's continuance as a going concern.
Initial Review Engagements — Opening Balances	
Paragraph 55 requires the practitioner, when performing an initial review engagement, to obtain sufficient appropriate evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements. Paragraph A106 provides related guidance.	No comparable requirement and guidance.
Identified Misstatements	
Paragraphs 58-59 requires the practitioner to accumulate	No comparable requirements and guidance.

CSRE 2400	ISRE 2400 (Revised)
misstatements identified during the review, communicate them to management, and request management to correct them. Paragraphs A113-A114 provide related guidance.	
Subsequent Events	
Paragraph 62 sets out a requirement relating to the practitioner's work effort and reporting if management amends the financial statements after the date of the practitioner's report but before the financial statements are issued.	No comparable requirement.
Paragraphs 64-67 sets out requirements relating to the practitioner's work effort and reporting if, after the date the financial statements have been issued, a fact becomes known to the practitioner that, had it been known to the practitioner at the date of the practitioner's report, may have caused the practitioner to amend the practitioner's report. Paragraph A115 provides related guidance.	No comparable requirements and guidance.
Written Representation	
Paragraph 70 requires the practitioner to request a written representation of management about whether they believe the effects of uncorrected misstatements are immaterial to the financial statements as a whole. A summary of such items is required to be included in or attached to the representation.	No comparable requirement.
Forming the Practitioner's Conclusion	
Paragraphs 76-77 set out explicit requirements to form a conclusion on the financial statements and determine whether limited assurance has been	No comparable requirements.

CSRE 2400	ISRE 2400 (Revised)
obtained that the financial statements as a whole are free from material misstatement.	
Paragraph 83 sets out a requirement with respect of a circumstance when financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation. Paragraph A127 provides related guidance.	No comparable requirements and guidance.
Paragraph A123 provides guidance on evaluating the effect of uncorrected misstatement on the financial statements as a whole.	No comparable guidance.
The Practitioner's Report	
Paragraph 94(g)(iii) requires the practitioner's report to state: "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 Auditing Standards ..."	Paragraph 86(g)(ii) requires the practitioner's report to state: "The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing ..." There is no reference to the fact that the procedures may vary in nature from those performed in an audit.
The practitioner's report on the prior period's financial statements may include a modified conclusion, and the matter that gave rise to the modification be unresolved. Paragraph 94(i)(iii) requires that, if applicable, the practitioner's report for the current period refer to the modified conclusion in the prior period's practitioner's report. Paragraphs A150-A152 provide related guidance.	No comparable requirement and guidance.
The practitioner may encounter circumstances when the going concern assumption is appropriate while a	No comparable requirement and guidance.

CSRE 2400	ISRE 2400 (Revised)
material uncertainty exists. Paragraph 99 requires that, in such circumstances, the practitioner express an unmodified conclusion and include an Emphasis of Matter paragraph in the practitioner's report to highlight the existence of a material uncertainly and draw attention to the note in the financial statements that discloses the matter. Paragraph A156 provides an illustration of the Emphasis of Matter paragraph.	
The prior period financial statements may have been reported on by another practitioner. Paragraph 100 requires that, if applicable , the practitioner's report include an Other Matter paragraph to indicate this fact, including the date of the predecessor practitioner's report, the type of conclusion expressed by the predecessor practitioner and, if that conclusion was modified, the reasons therefor.	No comparable requirement.
The prior period financial statements may not have been subject to a review engagement or an audit engagement. Paragraph 101 requires that, if applicable, the practitioner's report include an Other Matter paragraph to indicate this fact.	No comparable requirement.
The Concept of Sufficient Appropriate Evidence	
Paragraph A13 provides guidance on the definition of "limited assurance".	No comparable guidance.
Framework	
Paragraphs A14-A16 provide guidance on the definition of "special purpose	No comparable guidance.

CSRE 2400	ISRE 2400 (Revised)
framework".	
Materiality	
Paragraphs A76-A83 provide guidance on determining materiality.	No comparable guidance.
Understanding the Entity and Its Environment	
Paragraph A88 provides guidance on a practitioner's understanding of the entity and its environment in the context of a small owner-managed entity.	The ISRE contains some guidance on this topic, but in less detail than what is in CSRE 2400.
Paragraph A89 provides guidance on the extent of a practitioner's understanding of the entity's internal controls.	No comparable guidance.
Paragraph A90 provides guidance on a practitioner's understanding of the entity's significant accounting estimates in a review of interim financial statements.	No comparable guidance.
References to the International Framework for Assurance Engagements	
The CSRE does not contain references to the International Framework for Assurance Engagements because it has not been adopted in Canada.	Paragraphs 5, A35 and A40 include references to the International Framework for Assurance Engagements.
References to the IESBA Code	
Paragraph 15(n) defines "relevant ethical requirements" as comprising those requirements set out in the rules of professional conduct/code of ethics applicable to the practice of public accounting issued by the various professional accounting bodies in Canada. Paragraphs 19, A18 and A19 refer to relevant ethical requirements. Practitioners in Canada are generally	Paragraph 17(i) defines "relevant ethical requirements" as comprising those requirements set out in the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code).

CSRE 2400	ISRE 2400 (Revised)
required to comply with the rules of professional conduct/code of ethics established by professional bodies whose rules/code may differ from the IESBA Code. The rules, codes and practices followed by practitioners in Canada and the IESBA Code are constantly evolving.	