

SPECIAL REPORT

CSRE 2400: The New Review Engagement Standard
File Transition

CSRE 2400: The New Review Engagement Standard – File Transition

A Clearline Consulting Special Report

Clearline Consulting has been involved in the development of key resources for the new Canadian Standard for Review Engagements. We have contributed as a taskforce committee member in the development of [CPA Canada's Review Engagement Guide](#), participated in the technical review of the new CPA Canada checklists, and have provided internal and external training sessions through CPABC, CPA Saskatchewan and CPA Manitoba.

Assisting firms with an efficient and effective implementation of the new standard is one of our key priorities for 2017 – 2018.

Introduction

In this special report, we will delve further into the details of a firm's physical transition of engagement files to CSRE 2400, the new review engagement standard. We first highlighted this topic in our Special Report [CSRE 2400 – When is the Right Time to Train?](#). As explored in our first report on CSRE 2400, a firm's transition plan will depend on several factors including the firm's structure, staffing and the number of review engagements performed.

This special report is intended for firms that have multiple levels of professional staff and more than ten review engagement files.

In this report, you will find:

- Detailed steps to complete the transition of review engagement files
- Strategies to control administrative costs related to the transition
- Resources and support to help your firm's transition

Transitioning to a New Standard

Transitioning to a new standard involves much more than replacing old checklists with new checklists. As highlighted in our Special Report – [CSRE 2400: The New Review Engagement Standards – Implementation](#), firms will benefit from a more holistic acceptance and adoption of a new way of approaching review engagements. A post-implementation review of the adoption of CAS confirmed for many firms that additional time spent in understanding and adopting the new standard now will be more beneficial in subsequent years.

Firm-wide training, including partner and senior training focused on unlearning automated responses to review engagements is important. More so, the development of a formal transition plan will result in greater success in implementing the new standard and maintaining control over the administrative costs that will be incurred.

Six Steps in a Transition Plan

Before developing a detailed file transition plan, firms need to implement firm-wide training and assign responsibility for the firm’s review engagement file transition. Use these six steps to get started:



1. Obtain or create review engagement tools and templates.

The first decision to make is whether the firm will follow CPA Canada’s Professional Engagement Guide Review Engagement Checklists, to be released late May 2017. Note that there is no professional requirement to do so. Creating a firm-specific template is an investment that can result in many file efficiencies, however, there is a significant administrative cost in developing and maintaining these resources that should be considered.

For many firms, the question will not be whether the CPA Canada Checklists will be used, but rather how they may be tailored or modified to best meet the firm’s needs. Our review of the CPA Canada Checklists has identified the following which we will be supplementing in our engagement templates:

- Supplementary memorandum for additional client information relevant to provide tax compliance and other client services. The assurance standards do not contemplate the full services offered to review engagement clients, as such these are not included in the CPA Canada checklists.
- Sample process memorandums for cash, revenue, purchases and payroll.
- Firm templated letter for communicating relevant information to those charged with governance.
- Specific firm-developed account and transaction-based working papers such as revenue and gross margin and GST reconciliations.
- Firm specific templates for budgeting and invoicing.

2. Create the firm's template.

Once the firm's third-party software service provider has released the CSRE 2400 checklists, you are ready to create the firm's review engagement file template. Starting with the generic template, there are several firm-specific modifications to make. Remember that the CSRE 2400 checklists are limited and not all encompassing. It is the firm's responsibility to ensure that the policies and procedures implemented meet other professional requirements and address practice risk management. Consideration for modifications to the CSRE 2400 checklists include:

- Integrating the firm-specific tools and resources identified in Step 1. Where there is a firm-specific template to be used in the place of the CSRE 2400 checklists, consider hardcoding the reference in the checklists to ensure there is no duplication.
- Modifying the engagement letter template based on legal advice obtained previously. Check out [Best Practices for Limiting Liability by Using an Effective Engagement Letter](#) by David Wende.
- Modifying the representation letter template to ensure that appropriate tailoring on an engagement basis is made including representations in areas not directly covered by CSRE 2400 such as tax compliance items.
- Integrating the firm-specific policies and procedures included in your Quality Control Manual (CSQC1) such as client acceptance and continuance procedures, the assessment of the requirement for an EQCR and perhaps file specific staff evaluation forms.
- Integrating other firm templated communications to meet professional responsibilities such as communicating with predecessor accountants or permission to allow access to your engagement file.

Client Service Resources

The firm may also have invested in the creation of client service resources such as a templated PowerPoint presentation or marketing-based material. Consider whether these resources should also be integrated into the review engagement template.

Remember, you are not limited to one review engagement template to meet the needs of different clients and or sectors. Tools and resources may differ for various client sectors. Where it is more efficient to have separate engagement templates this may be the right time to implement these. Consider the following sectors and whether a separate engagement file, or perhaps a separate resource file within the engagement file, would help to promote efficiencies:

- **Construction** – understanding of the tender and bid process, individual project margin analysis, work in progress, REALPAC.
- **Societies** – understanding of the tax receipting process, completeness of revenues, allocation of costs.
- **Manufacturing** – understanding of the cost accounting processes and inventory controls, work in process, variance analysis.

Use the New Standard to Drive Firm Consistencies

Partner preferences or differences of opinion lead to inefficiencies in file preparation as staff try to navigate expectations related to work effort and required documentation in a review engagement.

The more partners, especially in cases where there have been mergers in the past, the more prevalent the issue. Don't miss the opportunity to spend the time now to develop a concise firm standard. The time will pay back in the future as firm wide inefficiencies are reduced.

3. Design detailed roll-over instructions.

With the firm template completed and approved, detailed instructions can be designed mapping out the steps to integrate the new template. One consideration is to create a detailed mapping of the firms' previous file template (CPEM or PPM) to the new review engagement template. The detailed procedures will be dependent upon the firm and the direction you chose to transition files. Are you updating checklists and working papers in the current engagement template? (Not recommended). Or, are you transferring data from the prior year file into the new template? (Recommended).

Depending on your administrative processes, key steps may include:

- Roll forward of engagement file.
- Update engagement letters and communications.
- Replace all checklists and implement firm-specific tools and resources.
- Update prior year information in required checklists such as materiality.
- Agree financial statements to those issued in prior year to ensure all mapping has been carried forward.
- Carry forward working papers in specific sections.

This stage of the transition is not expected to take more than an hour or two, however for firms with a significant number of review engagements we recommend having junior staff complete this. The goal is to have senior staff/managers, focus their time in the value-add areas of the file (i.e. engagement planning) not on administrative tasks.

Share the Load

To control transition costs, divide the file transition into junior work and senior work. The mechanical roll-forward of the engagement file and replacement of checklists and forms should be completed by junior staff members.



4. Have senior staff update understanding of the entity.

Once the basics of the file transition have been completed, each file should be assigned to a senior staff or manager who is familiar with the client. There is no point in having junior staff or staff who do not know the client complete the understanding of the entity and its environment. This will only result in a generic approach to the documentation that will not allow for effective engagement scoping to be completed.

The approach to updating the understanding of the entity and its processes will differ on a client-by-client basis. The client may be asked to provide the documentation through the provision of a list of specific questions or a request to summarize the internal processes. Alternatively, the manager may update the information based on the firm's current knowledge and focus on obtaining the necessary additional information. The approach will differ based on client sophistication as well as the current relationship with the client. Considerations may be found in [CSRE 2400 Implementation](#).

5. Complete engagement scoping.

Once the understanding of the entity has been updated, the scoping for the engagement may be considered. In engagement scoping, specific review procedures are identified in order to obtain sufficient appropriate evidence for any items or areas of the financial statements that are either material or where a risk of material misstatement is likely based on the client's procedures.

At this stage, it is likely that a significant portion of the engagement scoping could be completed, especially with a recurring engagement with no significant changes in the business operations or results expected. For others engagements, staff may need to wait until preliminary year-end information is received from the client.

In either case, this is the opportunity to reconsider all procedures that have been performed in past engagements. This is your chance to re-plan the engagement and focus the firm's efforts in areas of concern while letting go of general review engagement procedures that have been completed due to a SALY (Same As Last Year) approach.

Engagement Scoping

Junior staff often find review engagements difficult to execute. The degree of professional judgement required, as well as the significant variation in work effort from engagement to engagement and partner to partner, makes it difficult to determine the extent of procedures to be performed. A detailed engagement scoping with specific identification of planned procedures will assist in providing the direction necessary to continue to leverage junior staff while reducing back end queries and required follow up work.

6. Start the engagement.

Consider the appropriateness at this stage in completing the client continuance documentation, drafting the engagement letter and providing the client with the pre-engagement package. This may include the engagement letter, some background information on the new review engagement standard and an engagement preparation letter (PBC letter) highlighting the information needed to start the engagement.

If the firm does not have detailed PBC letters for each client, this may be the perfect opportunity to prepare these.

CPA Canada Alert: [Review Engagement Practitioner Client Briefing](#)
Where no formal communication has been developed by the firm to communicate the transition to the new review engagement standards, firms may consider the appropriateness of the CPA Canada Alert.

How Clearline Consulting Can Help

Clearline Consulting provides training and consulting services to sole practitioners and small to medium sized public practice firms. Our approach to training is to develop the necessary competencies within your firm. Here's how we can help:

- For firms with sufficient senior staffing resources, we can create a customized transition plan including overseeing the completion of the transition of files to the new engagement template.
- For firms with a limited number of engagements and limited staffing resources, we can transition your current engagement file to the new engagement template.
- We can deliver in-house official CPA professional development courses for CSRE 2400 tailored to your client base and firm's needs.
- We can provide assistance in developing or modifying a new review engagement template to meet the needs of your staff and the firm's client base.
- We can review a current sample of review engagement files for compliance and efficiency recommendations. These recommendations can be built into the firm's transition plan to a new engagement template.

About Clearline Consulting

Clearline Consulting provides practitioners and their staff with the tools, training and advice they need to succeed and build thriving accounting firms. From compliance, file monitoring and audit planning to professional development courses, staff training and customized consulting solutions, our team exists to serve the needs of small to mid-sized public practice firms. Our collaborative, integrated approach means clients have access to and support from knowledgeable people who are in front of the ever-changing standards environment.

For more information about our services and how we can tailor them to meet your needs, please call us directly at 778-375-3101.

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Bridget is a director at Clearline Consulting and also a CPA professional development instructor and consultant to CPABC and CPA Canada. She has over 15 years of experience in public practice with a mid-size firm in Vancouver and as a professional standards advisor with CPABC. Bridget applies her experience to empowering CPA firms and practitioners with technical competencies, professional development, regulatory compliance, and practice management matters.

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Tom has over ten years of dedicated accounting and assurance experience having worked with several public practice firms and as the associate director of practice review with CPABC. Tom provides file monitoring, training, audit/assurance planning and on-going consulting services to CPA firms and practitioners, easing their workload and facilitating their success. In addition to his role at Clearline Consulting, Tom instructs professional development courses with CPABC and also serves as a consultant and advisor to CPABC and CPA Canada.