

# Compilation Engagements Management Briefing

FEBRUARY 2020

## Do You Manage a Business and Engage a Practitioner to Compile Your Financial Information?

The Auditing and Assurance Standards Board (AASB) has recently issued a new standard on compilation engagements, Canadian Standard on Related Services (CSRS) 4200, *Compilation Engagements*. If you engage a practitioner to compile financial information for you, this *Management Briefing (Briefing)* will be of interest to you.

### **Compilation engagements (informally referred to as “Notice to Reader” or “NTR” under the current standard)**

You may be familiar with a compilation engagement being referred to by the title of the report under the previous Section 9200 - “Notice to Reader.” This Briefing will use “compilation engagements” and “compilation engagement report.”

### **Purpose of This Publication**

CPA Canada has developed this *Briefing* to inform you, as management, about the impact of this new standard when you engage a practitioner to perform a compilation engagement. It has been designed to assist in your discussions with your practitioner.

This *Briefing* will also help you better understand how to meet any requests or requirements from third parties. It will facilitate discussions with the practitioner and possibly a third party who may use the compiled financial information. See Appendix 1 of this *Briefing* for some key terms and a description of the parties involved, which may help with your discussions.

It is also recommended that you read the companion document, [Third-Party Briefing](#), if you have any third parties who may use your compiled financial information. Any third party should be made aware that a new compilation engagement report will be attached to your compiled financial information (see sample report later in this *Briefing*) and that the compiled financial information will include a description of the basis of accounting used.

This *Briefing* includes the following questions and information to assist in your discussion with your practitioner and to help you anticipate the changes that will occur:

- When Is the Standard Effective?
- What Changes Can You Expect in a Compilation Engagement?
- What is The Basis of Accounting That Must Be Described?
- What Will the New Compilation Report Look Like?
- Appendix 1 - Key Terms
- Appendix 2 - Discussion on Types of Possible Services Available

## When Is the Standard Effective?

CSRS 4200, *Compilation Engagements*, is effective for compiled financial information for periods ending on or after **December 14, 2021**, although your practitioner can adopt the standard earlier.

## What Changes Can You Expect in a Compilation Engagement?

The changes you can expect in a compilation engagement under this new standard can be outlined as follows:

1. Your practitioner will ask you whether the compiled financial information is intended to be used by a third party (e.g., your lender) and whether the third party has access to additional information.
  - When compiled financial information is to be used by a third party you must acknowledge that the third party is in a position to request and obtain further information from you or has agreed with you on the basis of accounting before the practitioner can accept or continue this engagement under this new standard.
2. A discussion about the expected [basis of accounting](#).
  - Since it is possible the basis of accounting expected to be applied in the preparation of the compiled financial information may change during the performance of the engagement, you will also be asked to acknowledge your responsibility for the final version of the compiled financial information once the compilation engagement is completed. Your acknowledgment of the basis of accounting expected to be applied in the preparation of the compiled financial information may take different forms: a written communication (e.g., in paper form, or by electronic or other medium) or an oral discussion with your practitioner.

3. A **new engagement letter**.
  - The new engagement letter will include the objective and scope of the compilation engagement, the intended use of the financial information, the responsibilities of the practitioner, and your responsibilities and acknowledgments as specified in the new standard.
4. A discussion of your business and operations, accounting system, and accounting records.
  - The practitioner's knowledge will allow them to perform the engagement in accordance with the new standard.
5. A discussion about significant judgments that the practitioner has assisted management with in the preparation of the compiled financial information. An example of a significant judgment could include the allowance for doubtful accounts or the recognition and measurement of revenue.
  - These judgments are discussed so that management understands their impact on the compiled financial information and accepts responsibility for them.
6. Your need to answer any questions the practitioner may ask if they believe the compiled financial information appears misleading.
  - The practitioner will read the compiled financial information before issuance and, using their knowledge of your entity and the basis of accounting, consider whether the compiled financial information does not appear misleading.
  - In addition, if, after issuance of the compiled financial information, the practitioner becomes aware of a fact which, if previously known, may have caused the practitioner to believe the compiled financial information appeared misleading, the practitioner will discuss this with you and determine the appropriate action needed.
7. You acknowledge that you take responsibility for the final version of the financial information.
8. The inclusion of the description of the basis of accounting in your compiled financial information (discussed below).
9. The **new compilation engagement report** will be attached to your compiled financial information (discussed below).

**IMPORTANT**

It is important to remember that, as management of the entity, you are responsible for the compiled financial information. The new compilation engagement report will state the following:

Management is responsible for the accompanying financial information, including the accuracy and completeness of the underlying information used to compile it and the selection of the basis of accounting.

This new standard enhances the communication between you (those charged with governance, if different) and your practitioner, both at the beginning of and during the performance of the compilation engagement.

## What Is the Basis of Accounting That Must Be Described?

Your compiled financial information will now include a note describing the basis of accounting applied.

The purpose of the description of the basis of accounting is to assist users in understanding how the compiled financial information is prepared. Examples of bases of accounting commonly encountered in compilation engagements are:

- a cash basis of accounting
- a cash basis of accounting with selected accruals and accounting estimates

- a basis of accounting prescribed by a contract or other form of agreement established by a creditor or a regulator

Your practitioner may help you select the basis of accounting; however, the basis of accounting is still your responsibility, and you will be asked to acknowledge this responsibility.

The following is one possible example of the note:

#### **Real Estate Rental Company**

The basis of accounting applied in the preparation of the balance sheet of ABC Company as at December 31, 20X1, and the income statement for the year then ended, is the historical cost basis and reflects cash transactions with the addition of:

- rent receivable based on lease terms less, an allowance for doubtful accounts
- revenue-producing property recorded at historical cost and amortized in accordance with amounts allowable for income tax purposes
- accounts payable and accrued liabilities
- current income taxes payable as at the reporting date
- rental revenue recorded in accordance with the lease terms

#### **Key Points on Describing the Basis of Accounting**

Since a description of the basis of accounting used to compile the financial information will be included in the compiled financial information, you will have a discussion with your practitioner on the expected basis of accounting to be used.

In addition, you will be asked to acknowledge that you (or those charged with governance, as appropriate) have taken responsibility for the final version of the compiled financial information, which includes the description of the basis of accounting.

## **What Will the New Compilation Report Look Like?**

### **A NEW Report!**

You can expect a new report to be attached to your compiled financial information that more clearly describes your responsibilities as management, the responsibilities of the practitioner and an explanation of the limitations of a compilation engagement. A sample compilation engagement report is included on the following page, with some of the key points highlighted with callouts.

## Sample Compilation Engagement Report

### COMPILATION ENGAGEMENT REPORT

To Management of ABC Company

On the basis of information provided by management, we have compiled the balance sheet of ABC Company as at December 31, 20X1, the statement of income and retained earnings for the year then ended, and Note X, which describes the basis of accounting applied in the preparation of the compiled financial information [and, if applicable, other explanatory information] (“financial information”).

Management is responsible for the accompanying financial information, including the accuracy and completeness of the underlying information used to compile it and the selection of the basis of accounting.

We performed this engagement in accordance with Canadian Standard on Related Services (CSRS) 4200, *Compilation Engagements*, which requires us to comply with relevant ethical requirements. Our responsibility is to assist management in the preparation of the financial information.

We did not perform an audit engagement or a review engagement, nor were we required to perform procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an audit opinion or a review conclusion, or provide any form of assurance on the financial information.

Readers are cautioned that the financial information may not be appropriate for their purposes.

[Practitioner’s signature]

[Date of the report]

[Practitioner’s address]

Title is aligned with the scope (compile and report) vs. “Notice to Reader.”

Addressee is the party who engages the practitioner – management or those charged with governance (TCWG).

Reference to the note in the compiled financial information that describes the basis of accounting used to prepare the financial information.

Report now includes management’s and the practitioner’s respective responsibilities.

Clarifies that no procedures are performed to verify the accuracy or completeness of the information provided by management.

No change in the level of assurance.

The date the practitioner has completed the engagement, including management’s (or TCWG’s) acknowledgment of its responsibility for the final version of the compiled financial information.

## Appendix 1 – Key Terms

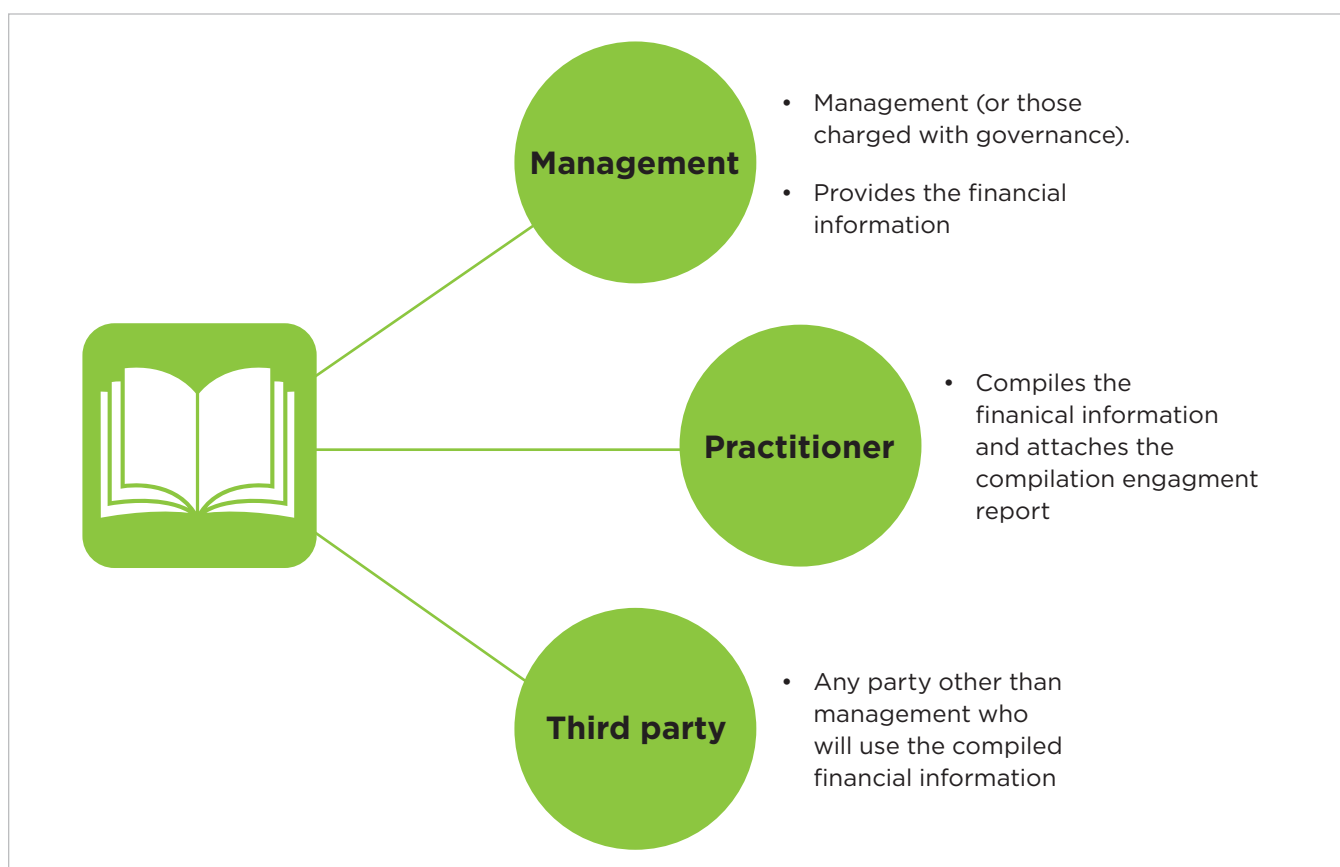
The following key terms are provided to help you obtain the most benefit from this *Briefing* and from your discussions with the practitioner.

**Practitioner** – A practitioner is a professional accountant in public practice. The term includes the engagement partner or other members of the engagement team or, as applicable, the firm.

**Relevant ethical requirements** – Ethical requirements, which the engagement team is subject to, are set out in Rules of Professional Conduct / Code of Ethics issued by the various professional accounting bodies.

**Third party** – A third party is an individual, organization or group other than management or those charged with governance.

The following diagram summarizes those involved:



## Appendix 2 – Discussion on Types of Service Available

One of the possible outcomes of the release of this standard is that you may find it useful to have a discussion on what type of service you need from your practitioner. Reassess your own needs, and consider any third parties who may request your financial information. Examples of services that you may request from the practitioner include the following:

- bookkeeping services
- tax services, including completion of tax returns
- general business advice, tax compliance and tax advice
- compilation engagement on compiled financial information (under this new standard as discussed in this *Briefing*)
- review engagement on financial statements
- audit of financial statements

You may ask for multiple services. Some will be within the scope of this new standard and some will not. This appendix is included in this *Briefing* to help you understand the types of service available.

For example, a bookkeeping service involves collecting, classifying, summarizing and processing your business data to create underlying accounting records. The output of a bookkeeping service may be a general ledger, trial balance or system-generated financial information to which no communication is included or attached.

A compilation engagement is one where you do not need the practitioner to provide any assurance on your entity's financial information. A key decision may be whether you want a practitioner's communication attached to your financial information. If you are simply asking the practitioner for bookkeeping or tax services, and the information will not be used by a third party, you may not need a compilation engagement.

The value of a compilation engagement results from the practitioner:

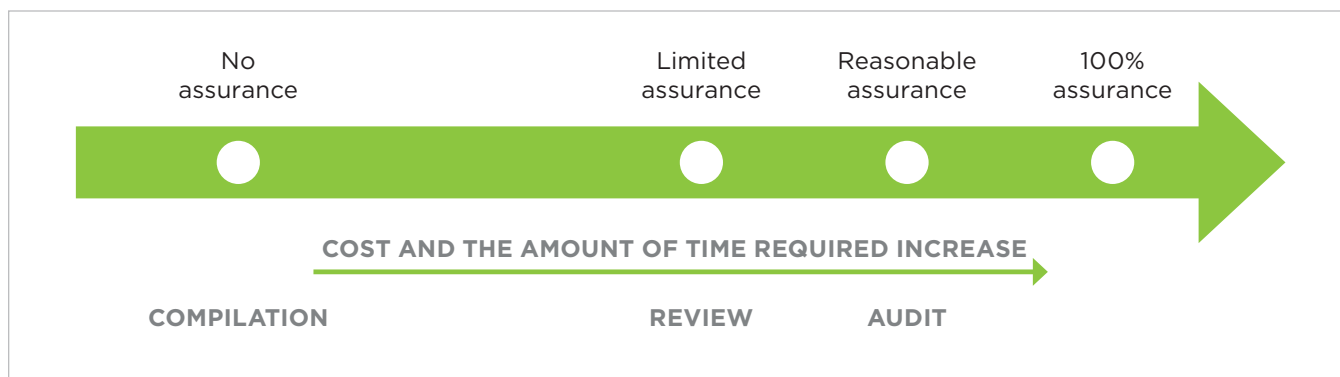
- assisting you in the preparation of the compiled financial information in accordance with a basis of accounting, with this basis of accounting being included in a note in the compiled financial information
- complying with professional standards, including relevant ethical requirements
- issuing a compilation engagement report that clearly communicates the nature and limitations of the engagement as well as the practitioner's and your responsibilities

The following section of this appendix includes a discussion on assurance and describes the nature of a compilation, a review and an audit.

### Is There Assurance Provided in a Compilation Engagement?

No. Like previous compilations completed, a compilation engagement under the new standard does not provide any form of assurance on the compiled financial information.

To understand the scope of a compilation engagement, it is useful to illustrate the nature of various engagements as outlined in the following diagram.



Compilation, review and audit engagements are presented in the above diagram to illustrate the different levels of assurance provided by the various engagements. Some additional information on these various engagements is included below, but you can also talk to your practitioner if you want more information.

As mentioned above, a compilation engagement is not an assurance engagement. The practitioner will not perform procedures to verify the accuracy or completeness of the information you provide.

You may want to consider whether an assurance engagement would meet your needs. The benefits of such an engagement depend on factors such as type of user, whether the entity is public or private, whether there are any laws or regulations requiring a specific type of assurance report, whether there are any financing requirements, size, structure and complexity of the business or entity or whether there are future business or growth plans. Discuss with your practitioner what might be best for your circumstances.

Assurance	Engagement	Description
No assurance	Compilation	An engagement to compile your financial information based on information received from you, with no expression of assurance by the practitioner.
Limited assurance	Review	An engagement to perform a review of your financial statements and to form a conclusion on whether anything has come to the practitioner’s attention to cause the practitioner to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework.
Reasonable assurance	Audit	An engagement to perform an audit of your financial statements and to form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.



For further discussion, see the following publication issued by CPA Canada, which expands on this discussion at: [Understanding Reports on Financial Statements: Audit, Review and Compilations](#).

### Compilation Engagements Guidance Task Force

CPA Canada expresses its appreciation to the author Jane M. Bowen, FCPA, FCA, for developing this *Management Briefing* and to the members of the [compilation engagements guidance task force](#) for their contribution to its preparation.

## Comments

Comments on this *Briefing* or suggestions for future publications should be sent to:

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