

Canada's compilation engagement standard is changing: A summary for third-party users of financial information

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Compilation engagements are changing: What you need to know

For the first time in over 30 years, the Auditing and Assurance Standards Board has issued a new standard on compilation engagements, Canadian Standard on Related Services (CSRS) 4200 *Compilation Engagements*. This new standard will impact all users of compiled financial information including third-party users, such as lenders, suppliers and purchasers of a business. The new standard will impact all third parties who have historically received a Notice to Reader communication attached to the financial information from a business.

The most significant changes include:

- A new compilation engagement report will replace the existing Notice to Reader communication issued under Section 9200 *Compilation Engagements*.
- The financial information must now include a new note that describes the basis of accounting used in preparing the compiled financial information.

The new standard is **effective for periods ending on or after December 14, 2021**, though practitioners are allowed to use the new standard before this effective date. This means that during the transition period, you may receive a mix of either Notice to Reader communications issued under the old standard or compilation engagement reports issued under the new standard.



How the new standard will help you

The new standard provides clarity on the extent of work performed and the basis of accounting applied.

- Under the old standard, there was a lack of transparency about the responsibilities and the extent of the work performed by the practitioner. The new compilation engagement report clearly communicates management's responsibilities, the practitioner's responsibilities and the limitations of the compiled financial information. It is explicit that no procedures are performed by the practitioner to verify the accuracy or completeness of the financial information.
- Compiled financial information does not have to follow general accounting frameworks. Therefore, under the old standard, it was difficult to determine how the compiled financial information was prepared. The new standard requires a note that describes the basis of accounting used.
- If the third party isn't in a position to obtain further information from the company, then management and the third party must agree on the basis of accounting used. Therefore, the third party has a level of control and can request that the compiled financial information is prepared in a way that meets their needs.

Is a compilation engagement right for you?

A compilation engagement may not be appropriate for third parties who require a degree of assurance over the accuracy of the financial information. In this situation, other types of engagements should be considered. As the level of assurance increases so does the work effort, which translates into increased time and cost.



What will the new compilation engagement report look like?

The new compilation engagement report contains additional information that is not in the Notice to Reader communication. This includes management's responsibilities, the practitioner's responsibilities and an expanded explanation of the limitations of the compiled financial information.

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 and 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]

The chart below compares the new compilation engagement report to the current Notice to Reader communication:

	New compilation engagement report	Notice to Reader communication
Title	Compilation Engagement Report	Notice to Reader
Addressee	To Management of ABC Company	To Management of ABC Company
Introductory Paragraph	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”).	On the basis of information provided by management, we have compiled the balance sheet of ABC Company as at December 31, 20X1, and the statement of income and retained earnings for the year then ended.
Description of Management’s Responsibilities	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.	None
Description of Practitioner’s Responsibilities	We performed this engagement in accordance with Canadian Standard on Related Services (CSRS) 4200, <i>Compilation Engagements</i> , which requires us to comply with relevant ethical requirements. Our responsibility is to assist management in the preparation of the financial information.	None
Limitation of the Compiled Financial Information and a Caution to the Reader	<p>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.</p> <p>Readers are cautioned that the financial information may not be appropriate for their purposes.</p> <p>[Practitioner’s signature] [Date of the report] [Practitioner’s address]</p>	<p>We have not performed an audit or a review engagement in respect of these financial statements and, accordingly, we express no assurance thereon.</p> <p>Readers are cautioned that these statements may not be appropriate for their purposes.</p> <p>[Practitioner’s signature] [Date of the report] [Practitioner’s address]</p>

What is the basis of accounting?

Compiled financial information will now include a note describing the basis of accounting applied. Examples of common bases of accounting for compilation engagements include:

- A cash basis of accounting
- A cash basis of accounting with certain accruals and accounting estimates
- A basis of accounting agreed upon by contract with a creditor or regulator—third parties and management can discuss how they would like the financial information presented.

The following is one possible example of the description of the basis of accounting:

Retail 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 reflecting the cash transactions with the addition of:

- Inventory valued using the retail method
- Property, plant and equipment amortized in accordance with amounts allowable for income tax purposes
- Accounts payable and accrued liabilities
- Current income taxes payable as at the reporting date.

Discussing the basis of accounting with management

When compiled financial information is intended to be used by third parties, third parties may have the ability to request and obtain additional information directly from management. In this situation, management is not required to discuss the basis of accounting with the third party. The note, together with the ability to request further information, allows the third party to understand how the balances were accounted for and the additional information will aid in meeting their objectives.

In cases where third parties are not able to request and obtain additional information directly from management, the new standard requires that the third party agree to the applied basis of accounting. In this situation, the third party can expect to have a discussion with management prior to the preparation of the compiled financial information. The description of the basis of accounting allows the user to understand how the financial information was compiled. This is important because management is not required to prepare the financial information in accordance with a general purpose framework such as Accounting Standards for Private Enterprises (ASPE), and therefore, the compiled financial information may not be appropriate for all users. In cases where a general purpose framework is required, an audit or review engagement may be more appropriate.



Our advisors are in your corner

The new compilation engagement standard will have a significant impact on all compiled financial information and the users of that information. Grant Thornton has an uncompromising commitment to excellence and has invested in training and tools to prepare for this change.



Please don't hesitate to contact your Grant Thornton team with any questions.



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