

Canada's compilation engagement standard is changing: A summary for management

July 2021

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*.

The most significant changes include:

- The services that fall under the definition of a compilation engagement have been more clearly defined. This may impact whether a compilation engagement is required.
- A new note describing the basis of accounting must be included with the compiled financial information.
- A new compilation engagement report will replace the existing Notice to Reader communication under Section 9200 *Compilation Engagements*.
- A minimum level of documentation is now required as well as certain acknowledgments from management.

The new standard is effective for periods ending on or after December 14, 2021.





Why is the change needed and what are the benefits?

The change is a significant shift in professional standards and the new compilation engagement provides considerable value to all users of the financial information.

- Under the previous standard, it was presumed that the compiled financial information would only be used by management; in practice, the financial information is often used by third parties, such as lenders. The new standard focuses on providing financial information that meets the needs and objectives of these third parties. If there are no third-party users, then a compilation engagement may or may not be required.
- Compiled financial information does not need to follow a general purpose accounting framework. Therefore, under the previous 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 applied. This makes the information more understandable and allows for easier comparisons across entities.
- The previous standard lacked transparency about the responsibilities of the practitioner and the extent of work performed. 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.
- The new standard defines the minimum level of documentation and work effort required. This provides a level of consistency in execution by practitioners.

What changes can you expect?

The new standard involves additional documentation, acknowledgements and inquiries as part of completing the engagement. You can expect the following changes:

Requirement under the new standard	Expected change
<p>The practitioner will ask management whether the compiled financial information will be used by a third party. If the compiled financial information will be used by a third party, management will be asked to acknowledge that the third party either:</p> <ul style="list-style-type: none">• Is in a position to request and obtain further information from the entity; or• Has agreed with management on the basis of accounting to be applied.	<p>Your practitioner will ask you whether the compiled financial information will be used by a third party(ies) and whether those third parties are in a position to request and obtain further information. For example, a lender may be able to request and obtain further information through the terms of their lending agreement.</p> <p>If not, then your practitioner will ask whether you and the third party have agreed upon the basis of accounting. In this situation, you will be required to have a conversation with the third party before the practitioner will begin the engagement. You and the third party must come to an agreement about the basis of accounting to be used in the preparation of the compiled financial information.</p> <p>If there are no third-party users of the financial information, then your practitioner will discuss the services available and whether a compilation engagement is required in the circumstances. You can request a compilation engagement even if it's not required according to the standard.</p>
<p>Management will be asked to acknowledge that they are responsible for the selection of the basis of accounting.</p>	<p>Your practitioner will have a discussion with you about the expected basis of accounting to be used in the preparation of the compiled financial information. While your practitioner may assist you in this area, you retain responsibility for the compiled financial information, including the selection of the basis of accounting. Your practitioner is required to obtain your acknowledgement of this responsibility.</p> <p>Since the basis of accounting may change during the engagement, you will also be asked to provide this acknowledgment at the end of the engagement.</p>
<p>Management and the practitioner will agree on the terms of the engagement.</p>	<p>You will be asked to sign a new engagement letter that includes the objective and scope of the engagement, the intended use of the financial information, the practitioner's responsibilities, your responsibilities and the acknowledgements specified in the new standard.</p>

Requirement under the new standard	Expected change
<p>The practitioner will obtain knowledge about the entity's business, operations, accounting system and accounting records.</p>	<p>Your practitioner will have a discussion with you about your company and its operations, accounting system and accounting records. You may be asked a number of questions including how transactions are recorded, classified and summarized.</p>
<p>The practitioner will discuss significant judgements with management.</p>	<p>There may be situations where your practitioner assists you with significant judgements (such as accounting estimates or selection of accounting policies). Although your practitioner is assisting in this area, you retain responsibility for the compiled financial information, including any significant judgements. Therefore, your practitioner will discuss these significant judgements with you in order to ensure you understand the impact on the compiled financial information.</p>
<p>The practitioner will consider whether the compiled financial information appears misleading.</p>	<p>Your practitioner will read your compiled financial information and consider whether the financial information appears misleading. If any matters are identified, your practitioner will bring them to your attention and ask you to provide additional or corrected information.</p>
<p>Management will be asked to acknowledge that they take responsibility for the final version of the financial information.</p>	<p>Your practitioner will ask you to acknowledge that you are responsible for the final version of the compiled financial information. This may include signing the financial information, a written communication or oral acknowledgment.</p>
<p>Updated compilation engagement report including:</p> <ul style="list-style-type: none"> • A reference to the note which describes the basis of accounting applied; and • Detailed descriptions of management's and the practitioner's responsibilities. 	<p>A new compilation engagement report and a new basis of accounting note will be attached to the compiled financial information. More information on these two items is provided below.</p>

What is the basis of accounting?

Under the new standard, compiled financial information must now include a note describing the basis of accounting.

This is to help users understand how the compiled financial information is prepared. 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.

Although your practitioner may assist you with selecting the basis of accounting, the basis of accounting applied to the compiled financial information is the responsibility of management (or those charged with governance, as appropriate). Your practitioner will ask for your acknowledgement of this responsibility.

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 third parties

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 you. In this situation, you are not required to acknowledge that you've discussed the basis of accounting with the third party. The note describing the basis of accounting, 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 you and the third party agree to the basis of accounting. In this situation, it is recommended that you have a discussion with the third party prior to preparing the compiled financial information to determine if the basis of accounting meets their needs. The description of the basis of accounting allows users, including third parties, to understand how the financial information was compiled. This is important because you are not required to prepare the financial information in accordance with a general purpose accounting framework such as Accounting Standards for Private Enterprises (ASPE) for example, and therefore, the compiled information may not be appropriate for all users. In cases where a general purpose accounting framework is required, an audit or review engagement may be more appropriate.

What will the new compilation engagement report look like?

The new compilation engagement report contains additional information that was not included 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>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>
Signatory	<p>[Practitioner's signature]</p> <p>[Date of the report]</p> <p>[Practitioner's address]</p>	<p>[Practitioner's signature]</p> <p>[Date of the report]</p> <p>[Practitioner's address]</p>

Is a compilation engagement right for you?

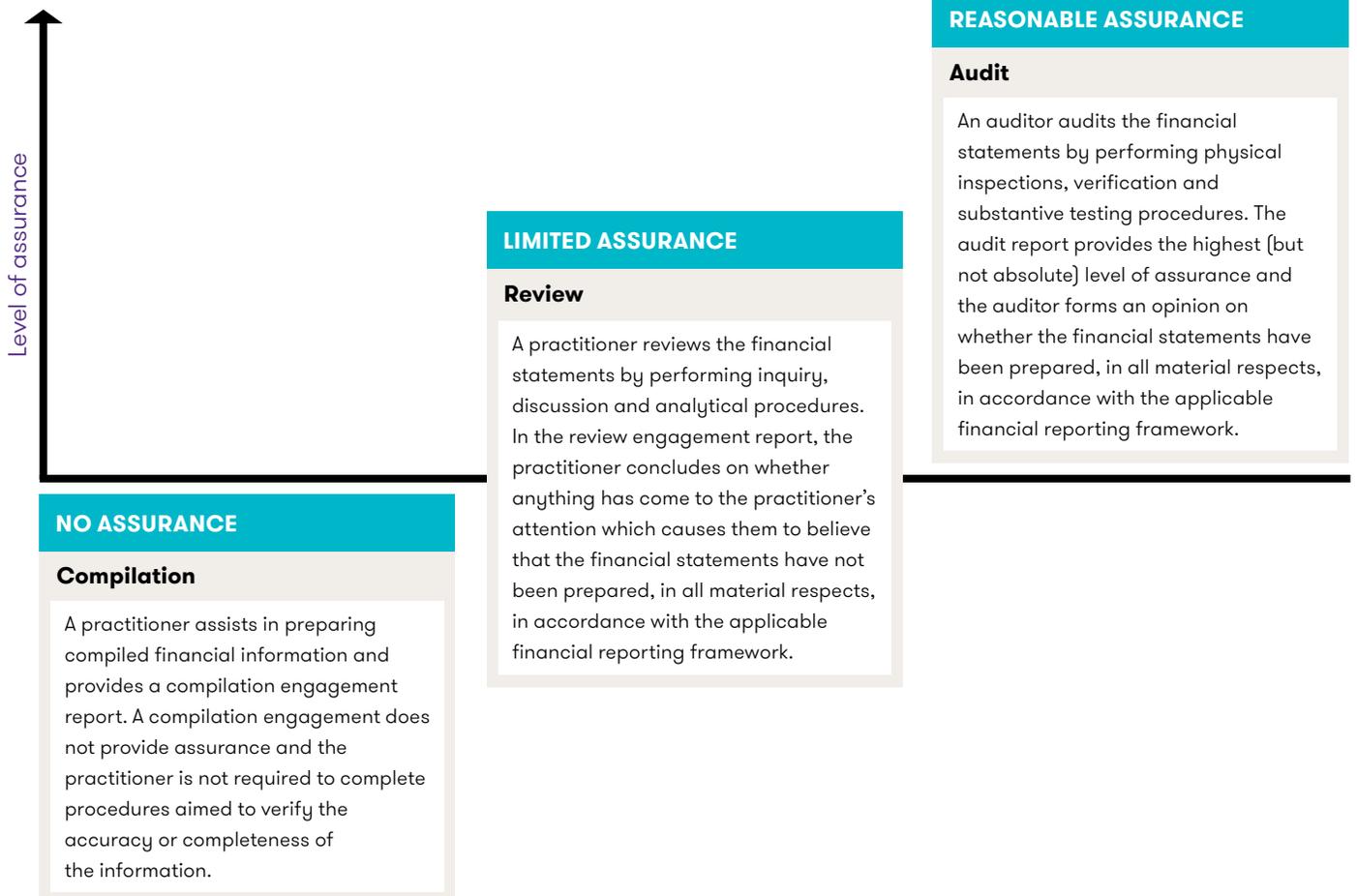
Under the new standard, the services that fall within the definition of a compilation engagement have been clarified. Due to the changes in scope, a conversation with your practitioner outlining your needs will be helpful in determining whether you require, or desire, a compilation engagement. Taking time to reassess your requirements, with consideration of whether there are any third parties who will request financial information, will help make this determination.

Examples of services provided by practitioners may include:

- Bookkeeping services
- Tax services, including completion of tax returns
- General business advice, tax compliance and tax advice
- Compilation engagements on compiled financial information
- Review engagements on financial statements
- Audit engagements on financial statements

Some of these services are within the scope of this new standard and some are not. A compilation engagement is required in cases where there are third party users of the financial information. If there are no third-party users of the financial information, then a compilation engagement is only required if you would like a practitioner's communication attached to the compiled financial information. If you only require bookkeeping or tax services and do not want compiled financial information with a practitioner's communication attached, then a compilation engagement may not be required.

A compilation engagement does not provide any form of assurance over the compiled financial information. If you, or users of your financial information, require a degree of assurance over the accuracy of the financial information, then you may consider other types of engagements such as a review or an audit, which are described below. It should be noted that as the level of assurance increases, so does the work effort which translates into increased time and cost.





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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