

Canadian Standard on Related Services (CSRS) 4200, Compilation Engagements

Do you receive financial statements from a business with an attached Notice to Reader, prepared by an accountant?

The Auditing and Assurance Standards Board (AASB) has recently issued a new standard on compilation engagements. The changes will impact users of compiled financial statements, such as loan officers, who use this information when granting loans or extending credit to small and mid-sized companies.

When is the new standard effective?

- Effective for compiled financial statements for periods ending on or after December 14, 2021.
- Earlier application is permitted.
- Until the public accountant decides to apply the new standard, you will continue to receive Notice to Reader communications.

Why was the change needed?

- There was a misunderstanding by users of compiled financial statements as to the extent of work performed by public accountant
- The compiled financial statements provided no information as to the basis of accounting applied in its preparation.

Examples of bases of accounting...

- Cash basis of accounting.
- Cash basis of accounting with selected accruals and accounting estimates.
- Prescribed by a contract or other form of agreement established by a creditor or a regulator, which could be one area of discussion you could have with management.

Why would management discuss the basis of accounting with you?

Financial statements compiled in a compilation engagement is often not prepared in accordance with a basis of accounting that is not a general purpose framework (i.e. ASPE). The description of the basis of accounting is important to your understanding of how the information was compiled, especially when you do not have the ability to request and obtain further information from the entity.

What is a compilation engagement?

An engagement in which a public accountant assists management in the preparation of financial statements and attaches a **compilation engagement report**.

The reporting public accountant:

- ✓ Assists management with the preparation of compiled financial statements in accordance with the new standard.
- × Does not provide any assurance on the compiled financial statements prepared by management.
- × Is not required to verify the completeness or accuracy of the information provided by management.
- × Does not carry out procedures designed to provide assurance over its integrity.

The new engagement report clearly communicates the...

- Responsibilities of management.
- Responsibilities of the public accountant.
- Nature and scope of a compilation engagement
- Description of the basis of accounting used in its preparation.
- Reason why the public accountant may not be considered independent of the reporting entity.

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) acknowledgement of its responsibility for the final version of the compiled financial information.