

The background of the top half of the page is a photograph of modern skyscrapers with glass facades, viewed from a low angle looking up. The sky is blue with some white clouds.

Assurance Alert: Release of CSRS 4200 Compilation Engagements

October 2020

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Background

In February 2020, the Auditing and Assurance Standards Board (AASB) issued a new Canadian Standard on Related Services (CSRS) 4200 *Compilation Engagements*.

This new standard was developed based on the results of outreach and consultation with key stakeholders and is intended to improve the usefulness of compiled financial information relied on by management and others. This alert outlines the impact this new standard will have on how financial information is compiled and reported on by a practitioner.

Who Does This Apply To?

If you are an owner, member of management or those charged with governance of business or organization that has engaged a practitioner to compile financial information for you, or if you are a third party who currently receives and relies on compiled financial information provided to you, you should be aware of the impact this new standard may have.

Effective Date

CSRS 4200 is effective for compiled financial information for periods ending on or after **December 14, 2021**. The new standard may be applied by a practitioner earlier.

Key Features

Scope Clarification

A compilation engagement is one in which a practitioner assists management in the preparation of compiled financial information and attaches a compilation engagement report, with no expression of assurance therein. CSRS 4200 includes a scope that clarifies which services constitute compilation engagements. It may be useful to consider what type of service you need from your practitioner and determine whether the required service falls within the scope of CSRS 4200. Services outside the scope of CSRS 4200 include, instances where:

- The financial information is prepared by a practitioner acting in the capacity of trustee in bankruptcy, receiver or liquidator.
- The financial information is prepared by a practitioner acting in a role of the entity's finance department with controllership responsibilities – i.e., CFO role.
- The practitioner is engaged to perform a bookkeeping service that may result in a general ledger, trial balance or system-generated financial information to which no communication is included or attached.
- The financial information is to be presented in income tax returns e.g., corporate, trust or personal.
- The financial information will be subject to an audit or review engagement performed by another practitioner.
- The financial information is prepared as part of another service such as business valuations, insurance, litigation support, and personal finance planning.

Engagement Acceptance and Continuance

CSRS 4200 includes specific considerations that must be addressed prior to accepting or continuing a compilation engagement. The practitioner will inquire about:

- The intended use of the compiled financial information, including whether that information is intended to be used by a third party and whether the third party has access to additional information.
- The basis of accounting to be applied in the preparation of financial information
 - Unless a general purpose framework [e.g., Accounting Standards for Private Enterprises (ASPE)] is used, the practitioner will ask you to provide an acknowledgement that the third party either 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.
 - If you are a **third-party user** who does not have the ability to request and obtain further information from the entity, management may ask you to agree with the basis of accounting to ensure that the compiled financial information is appropriate for your use.
- Your practitioner will request that you sign a **new engagement letter** containing the objective and scope of the compilation engagement, the intended use of the financial information, the responsibilities of the practitioner, and management's responsibilities and acknowledgements.

Work Effort and Documentation

CSRS 4200 specifies the required work effort by practitioners in compilation engagements and level of documentation required in the working paper file. The practitioner will:

- Obtain knowledge of your business and operations, accounting system and records, and the basis of accounting used.
- Discuss significant judgments and adjustments made in the financial information, such that you can accept responsibility for the judgments or adjustments.
- Ask different questions to ensure that the compiled financial information does not appear misleading:
 - Read the compiled financial information in light of knowledge obtained and basis of accounting applied and consider whether it is misleading.
 - Communicate any information that cause the compiled information to appear to be misleading, and request amendments.
- Obtain acknowledgment of your responsibility for the final version of the compiled financial information, including the description of the basis of accounting.

Basis of Accounting

In order to improve understandability, CSRS 4200 now requires that the compiled financial information include a note describing the basis of accounting applied in its preparation. CSRS 4200 does not specify the basis of accounting to be used in the preparation of compiled financial information. The basis of accounting to be used is selected by management and is not expected to be a general purpose framework. Examples of basis 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

When selected accruals and accounting estimates are used, the note may need to describe the accounting policies used to recognize and measure items in the compiled financial information.

Compilation Report

The new compilation engagement report more clearly communicates the responsibilities of management and the practitioner as well as the nature and scope of the engagement. The compilation engagement report may also include an explanation of any reasons why the practitioner may not be considered independent of the reporting entity.

WHAT WILL THE NEW COMPILATION ENGAGEMENT REPORT LOOK LIKE?¹

Compilation Engagement Report

[Addressee]

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.

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.

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

[MNP Signature]

[Report date]

[Address]

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.

¹CPA Canada's *Compilation Engagements Management Briefing* February 2020

Resources

CPA Canada has issued the following guidance to assist management and third parties in understanding the impact of this new standard:

- [Audit & Assurance Alert: Canadian Standard on Related Services \(CSRS\) 4200, *Compilation Engagements*](#)
- [Compilation Engagements Management Briefing](#)
- [Compilation Engagements Third-Party Briefing – What You Need to Know](#)

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