

November 30, 2018

Eric Turner, CPA, CA
Director, Auditing and Assurance Standards
Auditing and Assurance Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

Dear Mr. Turner:

Re: Proposed Canadian Standard on Related Services (CSRS) 4200 *Compilation Engagements* Exposure Draft

Thank you for the opportunity to provide input to the Auditing and Assurance Standards Board (AASB) on the above noted document (the “Exposure Draft”).

MNP LLP is one of Canada’s largest chartered professional accountancy and business advisory firms. Our clients include small to mid-size owner-managed businesses in agriculture, agribusiness, retail and manufacturing as well as credit unions, co-operatives, First Nations, medical and legal professionals, not-for-profit organizations, municipalities and government entities. We believe that we are well positioned to provide feedback on this exposure draft.

We support the AASB’s efforts to clarify the nature and scope of the compilation engagement and the responsibilities of management and the practitioner. We have reviewed the exposure draft and provided our comments below.

1. Do you agree with the scope of proposed CSRS 4200, including the exclusions? (Paragraphs 1-3 and A1-A5)

We believe under the existing standard that most practitioners had understood the exclusions in 2 (b) and 2 (d) to apply, even though they were unstated. However, we support their inclusion in the proposed standard.

There could be issues in practice with the application of the exclusion in 2 (c) for bookkeeping services. The definition in A3 states that bookkeeping services include classifying data which, after processing, will turn into accounting records which may include “system generated financial information”. In practice, it may be difficult to understand the distinction between classifying transactions and recording them to create financial statements generated by accounting software, versus entering a client’s trial balance into year end working paper software, posting adjusting entries as required to correct the accounting records, and then generating financial statements.

If the distinction is intended to be based on whether the preparer has been contracted to perform an internal bookkeeping function or has been contracted to be an independent external party providing compiled financial statements, this would appear to be inconsistent with the absence of an independence requirement for the performance of compilation engagements.

Under the current standard, we believe that there may be situations where, in the provision of bookkeeping services, a compilation engagement report is applied to system generated financial information, presumably to address perceived potential liability to third party users. It is unlikely the exclusion in 2 (c) would alter this practice since A5 allows people to elect to comply with the new standard even when not required.

We would suggest 2 (c) either be revised to make it clearer that the exclusion applies when engaged in an internal capacity or be removed from the standard.

2. Do you agree that the considerations for engagement acceptance and continuance are appropriate? (Paragraphs 22-26 and A12-A22)

We recognize the importance of engagement acceptance and continuance requirements. However, the following requirements are to some extent unclear, and we encourage the Board to include additional guidance in the final standard:

- a) The absence of a definition of general purpose financial reporting framework in Paragraphs 14 – 16 could lead to inconsistencies in practice in what is considered to be general purpose. We recommend including a definition of what constitutes a general purpose financial reporting framework for performing a compilation engagement.
- b) Paragraph 22 (b) requires the practitioner to ascertain whether management expects the compiled information to be distributed to third parties. As currently formatted, Paragraph 23 then appears to require the practitioner to address points (a) and (b) before providing an exemption from these considerations if a general purpose framework will be applied. We believe these paragraphs would be easier to follow if Paragraph 22 simply required the practitioner to determine the basis of accounting to be applied and, if the basis was a general purpose framework, did not require the practitioner to consider distribution. Paragraph 23 could then outline the requirements to be met if the basis of accounting is not a general purpose framework, and financial statements prepared using a disclosed basis information are expected to be distributed to a third party.
- c) There may be situations where, pursuant to the requirements of paragraph 23, the practitioner accepts or continues the compilation engagement for financial statements prepared using a disclosed basis of accounting when no third-party user has been identified, but circumstances later arise that cause the client to provide the compiled financial information to a third-party user. The existing standard addresses the potential for distribution to unknown users by its labelling of the financial statements as unaudited and in the wording of the notice to reader. It is unclear whether the proposed Standard's requirement to identify third party users might hinder the client's ability to use their existing compiled financial statements, or might create potential liability for the practitioner who has not included a restriction on distribution in the compilation engagement report.
- d) Further, paragraph 23 does not address what the reporting obligations of the practitioner would be where there is more than one known third party user and the parties require different bases of accounting.
- e) Guidance under paragraph A19 states that when the basis of accounting being applied is based on a general purpose financial reporting framework but does not comply with **all** requirements, the compiled financial statements cannot refer to the general purpose financial reporting framework. This seems inconsistent with the requirements for both audits and review engagements, where the report may state compliance with the majority of a general purpose financial reporting framework, and provide details of the specific areas for which the financial statements do not comply. We believe that a similar approach would be appropriate for a compilation and could make it easier to describe the basis on which a compilation has been prepared.
- f) We noted that paragraph A22 refers to the term "significant". We are concerned with how broadly this term could be interpreted in practice and recommend defining it.

3. Do you agree that the work effort required by proposed CSRS 4200 will improve consistency of engagement performance and reflects good practice? (Paragraphs 27-33 and A23-32)

While we generally agree that the work effort required by proposed CSRS 4200 will improve consistency of engagement performance and reflects good practice, we have concerns that the following requirements in the proposed standard may result in unnecessary work being performed:

- Obtaining details on third party users, if a general purpose framework is being followed;
- Identifying known third party users in the engagement letter, if a general purpose framework is being followed;
- Accounting system and accounting record documentation. The requirements in paragraph A25 are ambiguous concerning the level of understanding that is considered sufficient for purposes of a compilation. We recommend the guidance in the Standard be more specific on the purpose for which the documentation is being obtained and the nature and extent of the information needed.

4. Do you agree with the approach of requiring disclosure of the basis of accounting applied in the preparation of the financial information? (Paragraph 28, Appendix 1 and Appendix 2)

We agree that such disclosure could be beneficial if sufficient detail is provided for financial statement users to understand the basis on which the statements have been compiled. However, Paragraphs 28 and A26 – 27 do not provide sufficient guidance on the nature and extent of the disclosure required to explain the basis of accounting.

In the Preface to the CPA Canada Handbook – Accounting, “basis of accounting” is used to refer to Parts I through IV of the Handbook. The proposed wording in Paragraph 28 does not make it clear whether the disclosure only requires naming the part of the CPA Canada Handbook followed for preparing compiled financial information, or if it would also require disclosure of significant accounting policies. Inadequate disclosure could be more misleading to the compiled financial information users than not providing any disclosure.

5. Do you agree that the content of the proposed Compilation Engagement Report appropriately describes the responsibility of management and the practitioner, and the nature and scope of the engagement? (Paragraphs 36-37 and A34-A36, and Appendix 2)

There are aspects of the proposed report which raise concerns.

Paragraph 36 (b) appears to limit the report’s potential addressees to be management or those charged with governance, which would suggest there is an expectation that the financial statements are intended for internal use rather than distribution to third parties. This is inconsistent with the introduction to the Exposure Draft suggesting replacement of the existing standard is needed because the current standard is predicated on the expectation that compilation engagement reports are primarily for internal use and the new Standards will take third parties into account. There are also users who, under the existing standard, are accustomed to receiving a Notice to Reader on financial statements where there are owners or members who are not part of management or governance and who would be recipients of the financial statements. We suggest 36 (b) be revised to allow a broader spectrum of possible addressees.

The proposed standard eliminates the requirement to label each page of the compiled financial information “Unaudited – See Notice to Reader”. We believe this labelling to be a significant point of differentiation between compilations and other reporting engagements. We believe similar labelling such as “Unaudited – see Compilation Engagement Report” should be required, particularly if more compilations are expected to be prepared in compliance with a general purpose reporting framework. Many recipients of the compiled financial information will be aware of the practitioner’s involvement in the preparation of the financial statements and should be reminded that no assurance has been provided.

6. Do you agree that the documentation requirements are appropriate? (Paragraph 38)

Please see our response to question 3, above, in regard to our concerns related to documenting the accounting system and records.

Paragraph 38 (a) appears to require a signed engagement letter or equivalent in the year end file, although A22 addresses situations where a letter is not obtained annually. It is not clear whether the intent is that the engagement letter must be obtained annually, or whether it would be acceptable to carry forward an engagement letter from a prior year.

7. Are there any other matters that you think the AASB should be aware of as it considers finalizing the standard?

The proposed Standard may lead to more preparation of compiled financial statements in accordance with general purpose financial reporting frameworks. Depending upon how compliance with these frameworks is defined, it is unclear whether the intent is that the compiled statements include cash flow statements and other disclosures such as significant accounting policies which many practitioners have been excluding or providing in condensed form to differentiate compilation engagement report from reviews and audits. This may make it more difficult for financial statement users to distinguish between compilations, reviews and audits and the differing levels of assurance being provided.

The Audit and Assurance Alert issued concerning the Exposure Draft indicated one of the reasons for changing the standard was to address the gap between lenders' perception of the work performed in a compilation and the requirements in the standard. While the proposed standard may address many of these issues, we believe that further education of the lending community may be necessary, even if the proposals are adopted.

8. Do you believe that any of the requirements in the proposed CSRS 4200 could create initial implementation difficulties, despite the guidance provided? If so, please explain.

As noted in our responses to the preceding questions, we believe there may be challenges with complying with the requirements related to third party users.

A Standard that requires, or suggests, that more compiled financial statements should comply with a general purpose reporting framework could lead to increased costs for clients if cash flow statements and note disclosures must be added to their financial statements. We are unsure whether the benefit of the proposed change is commensurate with its probable cost. The challenge is to find a way to define compliance with a general purpose framework such that it will not be materially misleading to state that the compiled financial statements are prepared in accordance with a particular general purpose framework - e.g., ASPE – without including all the related disclosures.

9. Do you believe that the inclusion of a note disclosing the basis of accounting applied in the preparation of the financial information will help you understand better the information provided? (Exhibit in Appendix 1)

When following a disclosed basis of accounting there will always be a question of the extent of detail needed to properly understand the amounts in the financial statements. In the example provided in *Exhibit – Disclosed Basis of Accounting*, we believe many users would find the disclosure to be insufficient. The inclusion of accounts receivable would indicate revenue is not being presented on a cash basis. Many financial statement users would wish to have more detail on how revenue and receivables are being recognized.

10. Do you believe that the proposed Compilation Engagement Report is informative, clear and understandable? (Appendix 2)

The proposed report wording makes specific reference to the requirement for the practitioner “to comply with relevant ethical requirements”, without providing additional detail of what these

requirements are. We are concerned that there is potential for this phrase to be misconstrued by third party financial statement users, resulting in greater reliance being placed upon the compiled financial statements than is warranted by the nature of the engagement.

We believe the nature of the practitioner's responsibility would be appropriately disclosed by revising this paragraph to read:

We performed this engagement in accordance with Canadian Standard on Related Services (CSRS) 4200, *Compilation Engagements*. Our responsibility is to assist management in the preparation and presentation of the financial information of the entity.

Additional Considerations:

The proposed Standard does not appear to address what should happen in the case where the basis of accounting used for preparation of the financial statements changes from one period to the next. For example, if the financial statements were to be prepared on a cash basis in year one, would the financial statements have to include an opening balance sheet in order for the practitioner to state that the financial statements were prepared in accordance with ASPE in year two? We believe that practitioners would benefit from more clarity on this issue.

The Exposure Draft discusses the fact that the AASB is considering whether compilation engagements should be subject to quality control requirements. Given the scope of work required on a compilation engagement, and the fact that no assurance is being provided, we do not believe that a quality control review is warranted.

Paragraph A17 neither requires nor precludes specific actions being performed. We note that this paragraph might be seen to contradict paragraph A20, which does not require the practitioner to verify management's assertion that the third party has waived a contractual or statutory requirement for their financial statements to undergo an audit or review. We are concerned that the presence of A17 within the standard might create exposure to liability by making it unclear whether a practitioner complied with the standard if he did not ask if an audit or review might be more appropriate than a compilation.

Paragraph 5 of the proposed standard presents the profession's position that a compilation engagement is not an assurance engagement and no assurance is being expressed in the compilation engagement report. However, Paragraph 4 indicates there is value to users in our being associated with the financial statements. Knowledgeable users are aware that the compilation standard does not allow practitioners to be associated with knowingly false or misleading financial information; therefore, a perception gap may continue to exist on the level of assurance being provided, regardless of the actual wording of the report.

We would be pleased to offer our assistance to the AASB in further exploring the issues raised in our response and in helping to find solutions which meet the needs of the financial statement users.

Yours truly,

MNP LLP

Jody MacKenzie

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