

# Compilation Engagements Third-Party Briefing – What You Need to Know

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## Are You a Third Party Who Receives Compiled Financial Information?

Do you receive financial information from a business with an attached Notice to Reader, prepared by an accountant? If so, there are changes coming that may be relevant to you.

The Auditing and Assurance Standards Board (AASB) has recently issued a new standard on compilation engagements. The impact of these changes will be felt on a wide variety of stakeholders – including users of compiled financial information, such as loan officers who use compiled financial information when granting loans or extending credit to small and mid-sized companies. If you are a user of compiled financial information, this *Third-Party Briefing (Briefing)* will be of interest to you.

### **Purpose of This Publication**

CPA Canada has developed this *Briefing* to:

- assist you in understanding the nature of a compilation engagement and explain how it compares to a review or an audit engagement
- inform you of the changes in the new standard, including:
  - the NEW report that will be attached to the compiled financial information you receive that will replace the existing Notice to Reader communication
  - a new requirement to include a note in the compiled financial information that describes the basis of accounting applied in the preparation of the compiled financial information

**The NEW report to be attached to the compiled financial information will help you understand the nature of a compilation engagement. A sample report is provided in [Appendix 1](#) of this *Briefing*.**

## What Is a Compilation Engagement?

A compilation engagement is an engagement in which a practitioner assists management in the preparation of compiled financial information and attaches a compilation engagement report. As mentioned, the NEW report is included in [Appendix 1](#) of this *Briefing*. As you can see, the NEW report explains the respective responsibilities of both management and the practitioner. You can see that – consistent with the engagement under the previous standard – the reporting practitioner does *not* provide any assurance on the compiled financial information prepared by management.

The practitioner assists management with the preparation of compiled financial information in accordance with the new standard. The practitioner is not required to verify the completeness or accuracy of the information provided by management or carry out procedures designed to provide assurance over its integrity.

[Appendix 2](#) of this *Briefing* provides an overview of the three main types of engagements you may see related to financial information (i.e., a compilation engagement, a review engagement or an audit engagement).

## When Is the Standard Effective?

CSRS 4200, *Compilation Engagements*, is effective for compiled financial information for periods ending on or after **December 14, 2021**, though practitioners are permitted to use the new standard before the effective date. Until the practitioner decides to apply the new standard, you will continue to receive Notice to Reader communications.

### IMPORTANT

This standard can be applied early. During the transition period, you may receive Notice to Reader communications issued under the previous standard, or compilation engagement reports issued under the new standard.

## Why Was a Change Needed?

The change was needed because:

- there was often a misunderstanding by users of compiled financial information as to the extent of work performed by the practitioner in compilation engagements
- the compiled financial information provided no information as to the basis of accounting applied in its preparation

The new engagement report more clearly communicates the respective responsibilities of management and the practitioner, and the nature and scope of a compilation engagement (see discussion on the new compilation engagement report). The compiled financial information will also include a description of the basis of accounting used in its preparation.

## What Is the Basis of Accounting That Must be Described?

In order to improve understandability, the compiled financial information will now include a note describing the basis of accounting applied in its preparation. The description of the basis of accounting will depend on the circumstances of the engagement.

Examples of bases 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, which could be one area of discussion you could have with management

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

### **Real Estate Rental 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 cash transactions with the addition of:

- rent receivable based on lease terms, less an allowance for doubtful accounts
- revenue-producing property recorded at historical cost and amortized in accordance with amounts allowable for income tax purposes
- accounts payable and accrued liabilities
- current income taxes payable as at the reporting date
- rental revenue recorded in accordance with the lease terms

## Why Would Management Discuss the Basis of Accounting with You?

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 be applied in the preparation of the compiled financial information.

The description of the basis of accounting is important to your understanding of how the information was compiled. In a compilation engagement, the compiled financial information is often prepared in accordance with a basis of accounting that is not a general purpose framework (i.e., not Accounting Standards for Private Enterprises [ASPE]), and, therefore, the compiled financial information may not be appropriate for your use.

## What Will the New Compilation Report Look Like?

The new compilation engagement report includes additional information that is not in the Notice to Reader communication. This includes management responsibilities, practitioner responsibilities and an expanded explanation of the limitations of the compiled financial information. The compilation engagement report may also include an explanation of any reasons why the practitioner may not be considered independent of the reporting entity. This is required under the CPA Code of Conduct and has not changed under the new standard.

An example of the practitioner's report on compiled financial information is included in [Appendix 1](#) of this *Briefing*, with some of the key points highlighted with callouts and **yellow highlights**.

## Appendix 1 – Sample Compilation Engagement Report

### 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.

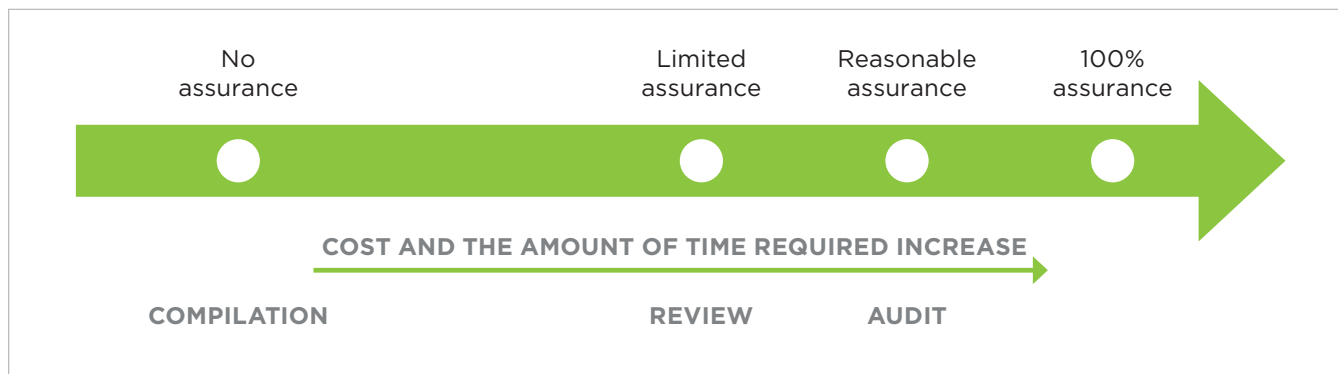
The date the practitioner has completed the engagement, including management’s (or TCWG’s) acknowledgement of its responsibility for the final version of the compiled financial information.

The following excerpts show the differences in more detail.

Current Notice to Reader	New Compilation Engagement Report
<b>Introductory Paragraph</b>	
<p>On the basis of information provided by management (or the proprietor), I have compiled the balance sheet of Client Limited as at ....., 20X1 and the statements of income, retained earnings and <b>cash flows</b> for the (period) then ended.</p>	<p>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 <b>Note X, which describes the basis of accounting applied in the preparation of the compiled financial information</b>, [and, if applicable, other explanatory information] (“financial information”).</p>
<b>Description of Management’s Responsibilities</b>	
None.	<p><b>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.</b></p>
<b>Description of Practitioner’s Responsibilities</b>	
None.	<p><b>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.</b></p>
<b>Limitation of the Compiled Financial Information and a Caution to the Reader</b>	
<p>I have not performed an audit or a review engagement in respect of these financial statements and, accordingly, I express no assurance thereon.</p> <p>Readers are cautioned that these statements may not be appropriate for their purposes.</p>	<p><b>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.</b></p> <p>Readers are cautioned that the financial information may not be appropriate for their purposes.</p>

## Appendix 2 – Summary of Possible Engagements

To understand the scope of a compilation engagement, it can be useful to illustrate the nature of various engagements as outlined in the following diagram.



Compilation, review and audit engagements are presented in the above diagram to illustrate the different levels of assurance provided by the various engagements.

As mentioned above, a compilation engagement is not an assurance engagement. The practitioner will not perform procedures to verify the accuracy or completeness of the information provided by management.

You may want to consider whether an assurance engagement would meet your needs. The benefits of such an engagement depend on factors such as type of user, whether the entity is public or private, whether there are any laws or regulations requiring a specific type of assurance report, whether there are any financing requirements, size, structure and complexity of the business or entity or whether there are future business or growth plans. Discuss with your practitioner what might be best for your circumstances.

Assurance	Engagement	Description
No assurance	Compilation	An engagement to prepare compiled financial information based on information received from management, with no expression of assurance by the practitioner.
Limited assurance	Review	An engagement to perform a review of the entity’s financial statements and to form a conclusion on whether anything has come to the practitioner’s attention to cause the practitioner to believe the financial statements have not been prepared, in all material respects, in accordance with the applicable financial reporting framework.
Reasonable assurance	Audit	An engagement to perform an audit of the entity’s financial statements and to form an opinion on whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework.

For further discussion, see the following publication issued by CPA Canada, which expands on this discussion at: [Understanding Reports on Financial Statements: Audit, Review and Compilations](#).

### **Compilation engagements guidance task force**

CPA Canada expresses its appreciation to the author Jane M. Bowen, FCPA, FCA, for developing this *Third-Party Briefing* and to the members of the [compilation engagements guidance task force](#) for their contribution to its preparation.

## **Comments**

Comments on this *Briefing* or suggestions for future publications should be sent to:

### **Yasmine Hakimpour, CPA, CA**

*Principal, Audit & Assurance*

Research, Guidance and Support

Chartered Professional Accountants of Canada

277 Wellington Street West

Toronto ON M5V 3H2

Email: [yhakimpour@cpacanada.ca](mailto:yhakimpour@cpacanada.ca)

## **DISCLAIMER**

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