

Implementation Tool for Practitioners

CANADIAN STANDARD ON RELATED SERVICES (CSRS)

JUNE 2020

CSRS 4200, *Compilation Engagements*

The Auditing and Assurance Standards Board (AASB) has issued a new Canadian Standard on Related Services (CSRS) 4200, *Compilation Engagements*. CSRS 4200 replaces:

- Section 9200, *Compilation Engagements*
- Assurance and Related Services Guideline AuG-5, *Compilation Engagements - Financial Statement Disclosures*

This *Implementation Tool for Practitioners (Tool)* will assist you with the implementation of CSRS 4200. It provides guidance to you, the practitioner, when you are asked to perform a compilation engagement. You will need to adapt the *Tool* to the specific circumstances of each engagement. This *Tool* does not replace the need to read CSRS 4200, including the application and other explanatory material.

This *Tool* is the fourth document in a series issued by CPA Canada related to CSRS 4200. The following are the previously-released documents:

- [Practitioner Alert](#) was developed to help prepare you and your firm for the transition to CSRS 4200.
- [Management Briefing](#) was developed to inform management about the impact of CSRS 4200 and to assist management in discussions with you.
- [Third-Party Briefing](#) was developed to help lenders and other third parties enhance their understanding of a compilation engagement and to facilitate discussions.

The primary objective of this *Tool* is to supplement the *Alert* and *Briefings* and to assist you with the **implementation of** CSRS 4200 for a specific compilation engagement.

Effective Date

CSRS 4200 is effective for compiled financial information for periods ending on or after **December 14, 2021**. You are permitted to use the new standard before the effective date.

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This *Tool* includes questions and responses to expand on some of the issues and to anticipate some of the questions that may arise on the implementation of CSRS 4200. The first of these questions is related to the term “financial information.”



QUESTION 1

Why does CSRS 4200 refer to financial information and not financial statements?

CSRS 4200 refers to financial information and not financial statements to reflect that information subject to compilation engagements is often comprised of part of a completed set of financial information or schedules of financial information.

The term “financial statements” ordinarily refers to a complete set of financial statements, including a statement of cash flows and note disclosures, as determined by the requirements of the applicable financial reporting framework. The preparation of such financial statements in a compilation engagement is rare.

Information subject to a compilation engagement may include:

- a complete set of financial statements, but that is expected to be rare
- a part of a complete set of financial statements
- schedules of financial information
- pro forma financial information (i.e., historical information modified to reflect one or more “what if” events)

(See CSRS 4200 Para. A1)

Scope of CSRS 4200

(See CSRS 4200 Para. 1 - 3 and A1 - A5)

CSRS 4200 provides information on which services constitute compilation engagements. Some services are excluded from the standard that may be considered “new” when compared to Section 9200. This means that some services you performed under Section 9200 will not necessarily be compilation engagements under CSRS 4200.

The following table summarizes the scope exclusions in CSRS 4200. These are circumstances that do not require you to undertake a compilation engagement, and therefore **CSRS 4200 does not apply**:

Scope Exclusions*

When you prepare financial information and are:

- acting in the capacity of trustee in bankruptcy, receiver, or liquidator
- contracted to act as a member of the entity's finance department with controllership responsibilities (CFO role) **(New)**
- engaged to perform a bookkeeping service that may result in a general ledger, trial balance or system-generated financial information **(New)**

When the financial information:

- is to be presented solely in government-prescribed tax forms such as corporate, trust or personal income tax returns **(New)**
- will be subject to an audit or a review engagement performed by another practitioner **(New)**
- is prepared as part of another service such as **(New)**:
 - assistance in the preparation of forms prescribed by governmental and regulatory bodies or by others such as insurers
 - business valuation service
 - litigation support service
 - personal financial planning service

* CSRS 4200 indicates which services are excluded from the scope; however, you may decide or be requested to issue a communication on the financial information. In that case, the only appropriate form of communication is a compilation engagement report (see Sample Compilation Engagement Report included in [Appendix B](#) of this *Tool*) to which *all* requirements of CSRS 4200 apply.

Applying CSRS 4200 gives you an opportunity to revisit the services you currently provide to your client and determine which service best meets their needs.

**QUESTION 2****How do I know if CSRS 4200 is the appropriate standard / engagement to meet the clients' request / needs?**

The first step is to identify the client's needs.

You can start the discussion with such preliminary questions as the following:

- Do they need bookkeeping services?
- Do they need tax compliance services?
- Do they want you to assist them with preparing financial information?
- Do they want a practitioner's communication?
- Do they have any third parties that intend to use the financial information?
- Do they need assurance on the financial information?

Remember, if management or a third party wants or needs assurance on the financial information, then a compilation engagement under CSRS 4200 is not the appropriate engagement. In such case, you may ask your client to consider whether a review engagement or an audit engagement would better address the needs of their users.

If no assurance is required, you can determine whether CSRS 4200 is the appropriate engagement.

The following two scenarios illustrate some possible conclusions on the nature of the services that your client may request:

- If your client requires a bookkeeping service and a tax service and does not request financial information with your communication attached, then CSRS 4200 need not apply.
- If you are engaged to do the above but your client requests financial information with your communication attached, because the client wants to provide it to a third party or for management's own purposes, then CSRS 4200 will apply.

**QUESTION 3****Can I attach a compilation engagement report (or any other form of communication) on financial information that is excluded from the scope of CSRS 4200?**

There may be circumstances when CSRS 4200 does not apply but management requests a practitioner's communication, or when you decide that a communication is necessary to avoid users' misunderstanding the nature and limitations of the engagement.

The only form of communication you can attach to the financial information is a compilation engagement report. In such case, all the requirements of CSRS 4200 apply.

No other form of communication, such as disclaimers, can be included or attached to financial information excluded from the scope of CSRS 4200. The reason that the only appropriate form of communication is a compilation engagement report is because such a report appropriately communicates management and the practitioner's responsibilities and the limitations of the engagement. Different forms of communication, such as disclaimers, may be confusing and misleading to readers, so the standard promotes consistency in reporting on information.

(See CSRS 4200 Paras. 1 – 3 and A1 – A5)

**QUESTION 4****I understand that CSRS 4200 does not apply to a bookkeeping service. Does CSRS 4200 apply if management later asks for compiled financial information or for a practitioner's communication in addition to the bookkeeping service?**

As discussed, CSRS 4200 does not apply to financial information prepared by a practitioner engaged to perform a bookkeeping service. However, it is possible that management requests multiple services which include services that are not scoped out of CSRS 4200, or management may request a communication be attached, and therefore CSRS 4200 would apply.

The scope exclusion is applicable to a bookkeeping service and the description of a bookkeeping service in the application material states:

“A bookkeeping service involves collecting, classifying, summarizing and processing data to create underlying accounting records, which may result in a general ledger, trial balance or system-generated financial information to which no practitioner's communication is included or attached.” (See CSRS 4200 Para. A3)

The above description recognizes that a practitioner may provide an entity with system-generated financial information in a bookkeeping service, but no practitioner's communication can be included or attached to such financial information. Today's technology allows bookkeeping and other software to collect, classify, summarize and process the data to create system-generated financial information. To determine if you are providing a bookkeeping service or a compilation engagement, you will need to have a discussion with your client to understand their needs for financial information and a practitioner's communication.

The Basis for Conclusions Para. 4 of CSRS 4200 includes the following:

The AASB acknowledged that system-generated financial information may look like compiled financial information. Today's technology allows a practitioner or an entity's management to easily generate financial information. However, a compilation engagement and a bookkeeping service are different in their activities and communication. The service an entity requests, including whether a communication is required to be attached to the financial information, determines whether the practitioner has been engaged to perform a compilation engagement or a bookkeeping service.

REMINDER: CSRS 4200 provides the option to issue a communication on financial information prepared in a bookkeeping service. In such circumstances, the only appropriate form of communication is a compilation engagement report and **all** the requirements of CSRS 4200 apply.

(See CSRS 4200 Paras. 2(c) and A3)



QUESTION 5

Does CSRS 4200 apply if I prepare financial information to be used in government-prescribed tax forms AND the financial information is also to be provided to management for other purposes which are not excluded from CSRS 4200?

Yes, CSRS 4200 does apply. Although CSRS 4200 does not apply to financial information prepared for inclusion in government-prescribed tax forms, if the financial information has another use that is not covered by the scope exclusion, then CSRS does apply (i.e., preparation of financial information for submission to management with a communication attached).

For the scope exclusion to apply, the financial information you prepare cannot have another use outside the circumstances covered by the scope exclusion in Para. 2 of CSRS 4200.

However, if the practitioner provides multiple services and they are all excluded from the scope of CSRS 4200 (e.g., bookkeeping service and a tax service), then CSRS 4200 would not apply.

(See CSRS 4200 Paras. 2(d)(i) and A2)

Understanding CSRS 4200

The first step in understanding how to apply CSRS 4200 is to read the full standard, including the application and other explanatory material.



QUESTION 6

Are there any specific terms that are important to my understanding the requirements of CSRS 4200?

Yes, the following terms are important to your understanding of CSRS 4200:

- **Practitioner:** a professional accountant in public practice. The term includes the engagement partner or other members of the engagement team or, as applicable, the firm.
- **Third party:** the individual, organization or group other than management or those charged with governance (TCWG).
- **Basis of accounting:** Financial information may be prepared and presented in accordance with different bases of accounting. A basis of accounting may be:
 - established by an authorized or recognized standards-setting organization (e.g., Accounting Standards for Private Enterprises [ASPE]),
 - prescribed by law, regulation, or contract, or
 - developed by management (e.g., a modified cash basis). A basis of accounting developed by management is not ASPE (or Accounting Standards for Not-for-Profit Organizations [ASNFPO] in the *CPA Canada Handbook - Accounting*). It would be rare that a basis of accounting applied in the preparation of compiled financial information under CSRS 4200 would be compliant with all aspects of ASPE or ASNFPO.

As mentioned, a basis of accounting may take the form of an established framework (such as ASPE), that includes various accounting policy choices, such as accounting for income taxes or accounting for investments. Therefore, if the basis of accounting is ASPE, the significant accounting policy choices are described in a note to the financial information.

A basis of accounting developed by management may present limited, if any, accounting policy choices. This is because the accounting policies are generally included in the basis of accounting (i.e., there are no “choices” to make). However, certain accounting policies are nonetheless used, for example in recognizing and measuring inventory in the compiled financial information. These accounting policies, typically described in the basis of accounting note in the compiled financial information, help users understand how the compiled financial information is prepared. Therefore, the separate disclosure of accounting policies used is not necessary if the basis of accounting is developed by management.

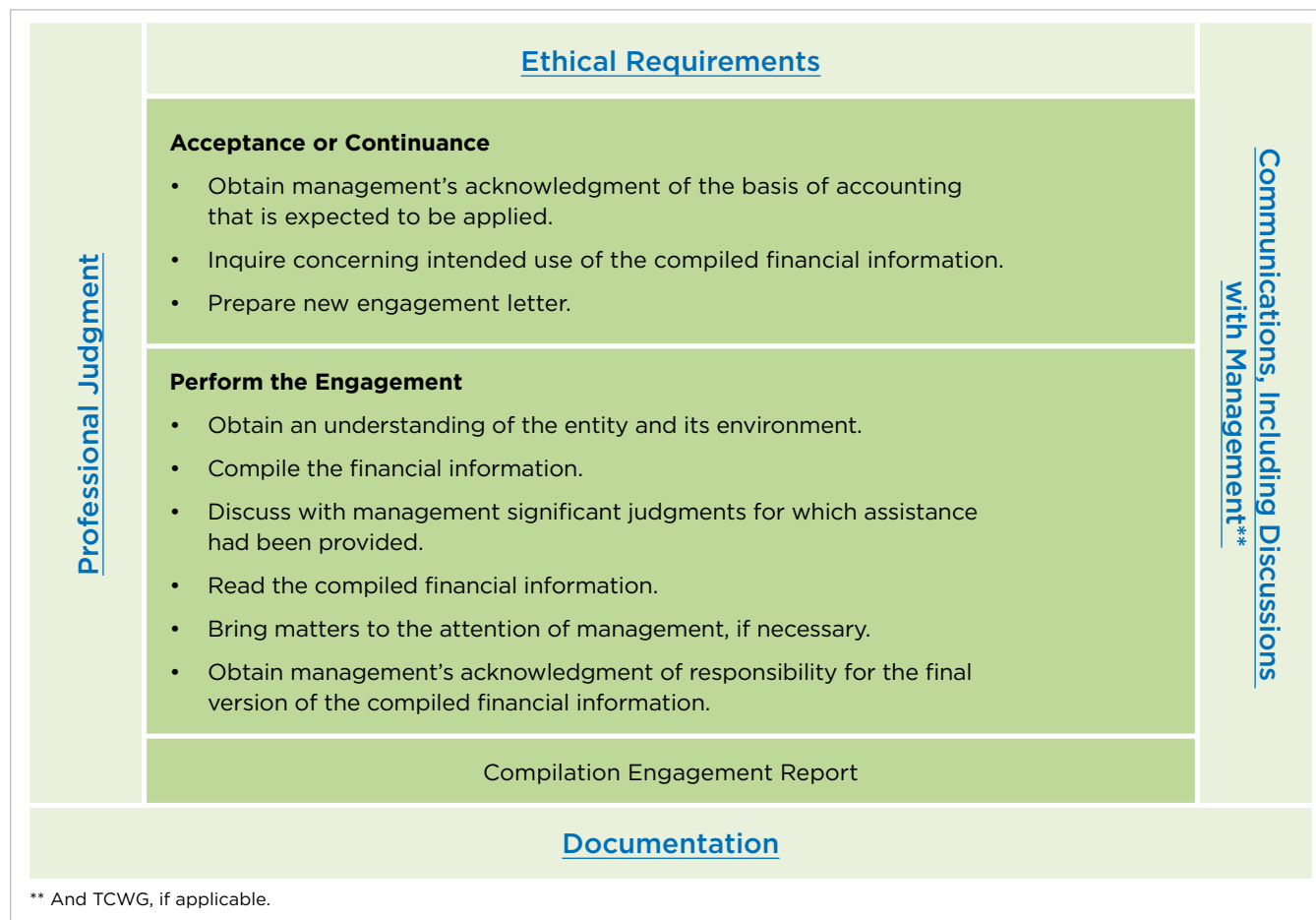
- **Management:** When CSRS 4200 makes references to “management,” it means “management and, where appropriate, those charged with governance.” (See CSRS 4200 Paras. 16 and A6)

The Glossary of Terms in the *CPA Canada Handbook - Assurance* includes the terms defined in CSRS 4200 and can be used to assist in its consistent application and interpretation.

(See CSRS 4200 Paras. 14 and A6)

The components of a compilation engagement can be summarized in Figure 1:

FIGURE 1



Ethical requirements

As shown in Figure 1, ethical requirements are relevant throughout the compilation engagement. Ethical requirements are specified in detail in the provincial *Code of Professional Conduct / Code of Ethics*.

The provincial *Code of Professional Conduct / Code of Ethics* does not require you to be independent; however, when there is a threat to independence such that you may be seen by a reasonable observer as lacking independence, the Code requires disclosure in the compilation engagement report.

**QUESTION 7****Has there been any change in the provincial *Code of Professional Conduct / Code of Ethics* regarding the disclosure related to independence?**

No, there has been no change in the provincial *Code of Professional Conduct / Code of Ethics* related to compilation engagements.

CSRS 4200 requires you to comply with all relevant ethical requirements when performing a compilation engagement. These requirements are set out in the provincial *Code of Professional Conduct / Code of Ethics* issued by the various professional accounting bodies.

The provincial *Code of Professional Conduct / Code of Ethics* does not require you to be independent; however, when there is a threat to independence such that you may be seen by a reasonable observer as lacking independence, the Code requires disclosure in the compilation engagement report. For example, the following addition to the bottom of the compilation engagement report may be suitable:

A partner in this accounting firm owns xx% of the Class A shares of Client Limited

Even though there is no requirement for you to be independent, you will need to perform and document an assessment of independence since any impairment of independence requires disclosure.

Refer to your respective provincial accounting body for information on the *Code of Professional Conduct / Code of Ethics*.

(See CSRS 4200 Paras. 20 and A7 - A8)

Professional judgment

As shown in [Figure 1](#), professional judgment is applied in performing a compilation engagement and is based on the facts and circumstances that are known to you up to the date of the report. Professional judgment involves the application of relevant training, knowledge and experience, and relevant ethical requirements.

Areas where professional judgment may be needed include:

- determining whether you can accept or continue the engagement
- determining the extent of knowledge of the entity required to perform the compilation engagement
- assisting management in making decisions about the basis of accounting to be applied in preparing the compiled financial information, including, where applicable, the appropriate accounting policies to be used
- assisting management in developing accounting estimates
- determining which matters to bring to the attention of management
- reading the compiled financial information and considering whether such information does not appear to be misleading
- determining the extent of documentation that you must complete

Communication with management and others

(See various requirements in CSRS 4200)

As shown in [Figure 1](#), communication with management and others may take place throughout the compilation engagement. This communication can take place in the pre-acceptance (or continuance), performing and reporting phases of the engagement.

This communication includes formal communications, such as the engagement letter and the compilation engagement report. However, it also involves other communications, such as inquiry and acknowledgments. These communications may take place between management, others within the entity, and TCWG (as appropriate). See [Appendix D](#) of this *Tool* for a summary of the other required communications.

Documentation

As shown in [Figure 1](#), documentation appears as a label on the “outside” of the figure to illustrate its relevance throughout the compilation engagement. You are required to document how the requirements of CSRS 4200 were met. The documentation must be sufficient to enable an experienced practitioner having no previous connection with the engagement to understand how the requirements were met. The nature and extent of documentation to be included in the working paper files involves professional judgment. The documentation requirements of CSRS 4200 and some examples are discussed in more detail later in this *Tool*.

How Using This Implementation Tool Can Help

This *Tool* includes a one-page diagram ([Figure 1](#)) summarizing the components of a compilation engagement. It is easily detachable and useful as a reminder. As mentioned, this *Tool* also includes various questions and answers that will help you implement CSRS 4200.

This part of the *Tool* will discuss in more detail the following components of a compilation engagement introduced in Figure 1:

- Acceptance and continuance.
- Obtain knowledge related to the entity.
- Prepare the compiled financial information.
- Issue the compilation engagement report.

Acceptance and Continuance

(See CSRS 4200 Para. 22 – 26 and A11 – A23)

Compilation engagements performed in accordance with CSRS 4200 can be divided into two types:

1. those where the compiled financial information is for management’s purpose
2. those where the financial information is intended to be used by a third party

When a third party will be using the compiled financial information, CSRS 4200 includes the additional acceptance (or continuance) conditions discussed below.

Prior to accepting or continuing **any** compilation engagement, you must:

- Make inquiries of management regarding the intended use of the compiled financial information, including whether the compiled financial information is intended to be used by a third party; and
- Obtain an acknowledgment from management of the expected basis of accounting to be applied in the preparation of the compiled financial information.

However, when the compiled financial information is **intended to be used by a third party**, CSRS 4200 includes additional acceptance (or continuance) conditions. You may accept (or continue) the engagement if, according to management, the third party:

- 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 in the preparation of the compiled financial information

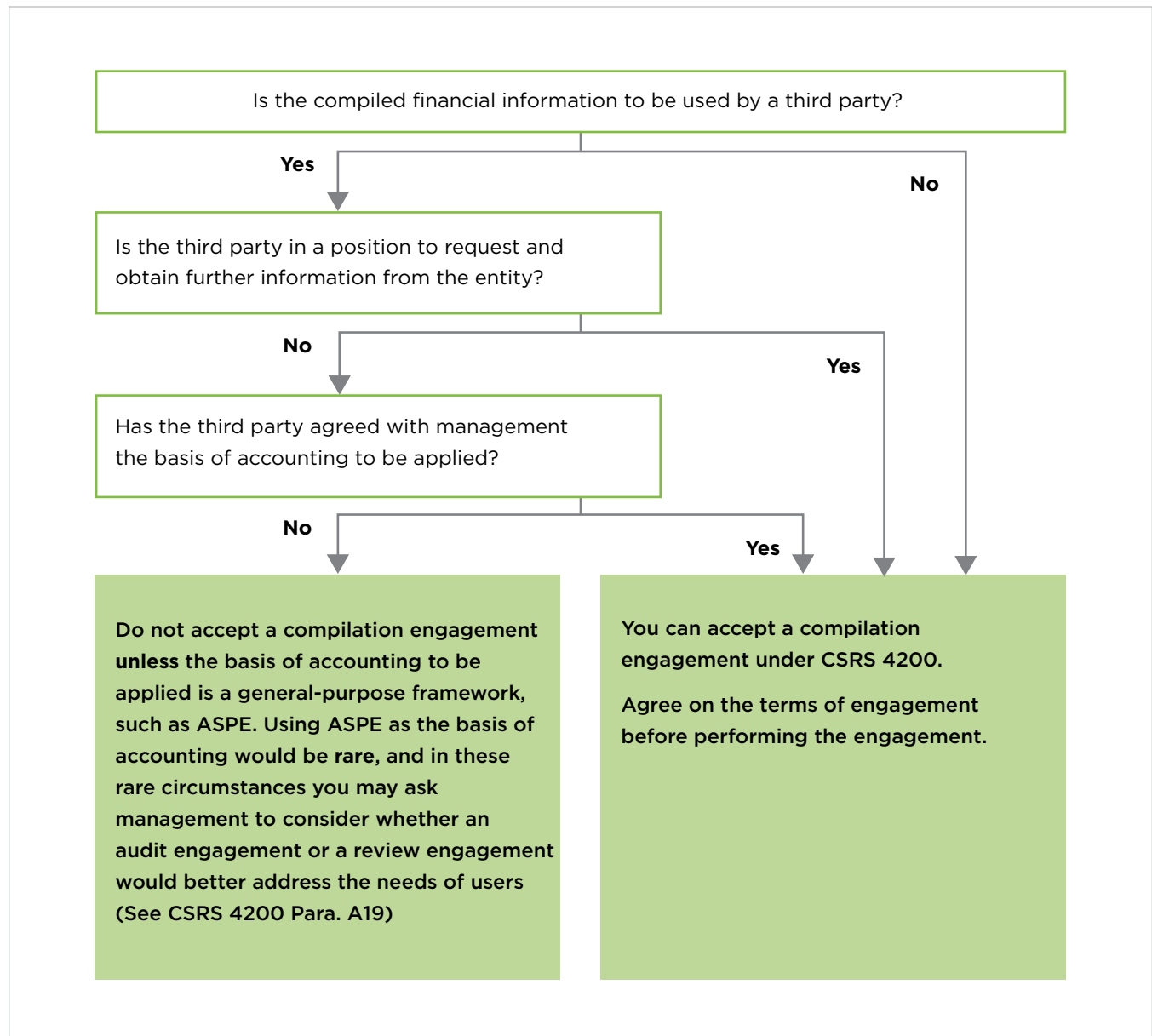
A common third party would be a lender who is likely to be in a position to obtain further information through the lending agreement.

If neither of these conditions is met, you cannot accept or continue a compilation engagement unless the basis of accounting to be applied in preparing the compiled financial information is a general-purpose framework, e.g., ASPE. It is a rare occurrence that the basis of accounting applied to compiled financial information would be a general-purpose framework. In such case, you may ask your client to consider whether a review engagement or an audit engagement would better address the needs of their users.

REMINDER: As indicated above, when the compiled financial information is intended to be used by a third party, certain conditions must be met. You must obtain management's acknowledgment that the third party is in a position to request and obtain further information from the entity or that the third party has agreed with management on the basis of accounting to be applied. This acknowledgment by management must be included in the engagement letter or other suitable form of written agreement. You are not required to verify whether the third party is in a position to request and obtain further information from the entity or has agreed to the basis of accounting; management's acknowledgment will suffice.

Figure 2 can be used in the engagement acceptance (or continuance) decision:

FIGURE 2





QUESTION 8

What steps must I complete to meet the requirements related to the acceptance (or continuance) decision?

The level of work effort related to the engagement acceptance (or continuance) decision is a matter of professional judgment and can be summarized into three areas:

1. Inquiries of management about the intended use of compiled financial information, including whether the information is intended to be used by a third party.

You must make **inquiries** of management about the **intended use** of the compiled financial information. [See CSRS 4200 Para. 22(a)].

In some circumstances, knowledge of the broad user group (e.g., current or potential lenders for borrowing purposes) rather than the specific user (e.g., ABC bank) may be sufficient information when considering the conditions for accepting or continuing the engagement. In other circumstances, the practitioner may need further information about the third party to consider those conditions. (See CSRS 4200 Para. A11)

2. Obtain management's acknowledgment of the basis of accounting.

This acknowledgment from management of the basis of accounting expected to be applied in the preparation of the compiled financial information may take different forms: a written communication (e.g., in paper form, or by electronic or other medium) or an oral discussion which you would document.

It is possible that the basis of accounting expected to be applied in the preparation of the compiled financial information may change while you are performing the engagement. Therefore, you will also obtain management's acknowledgment that it has taken responsibility for the final version of the compiled financial information once the engagement is completed (See further related discussion later in this *Tool*).

3. Determine whether the engagement acceptance (or continuance) conditions are met, and that you can therefore accept the compilation engagement.

When the compiled financial information is intended to be used by a third party, certain conditions must be met for you to accept a compilation engagement. You must obtain management's acknowledgment that the third party is in a position to request and obtain further information from the entity or that the third party has agreed with management on the basis of accounting to be applied. This acknowledgment must be included in the engagement letter or other suitable form of written agreement. You are not required to verify whether the third party is in a position to request and obtain further information from the entity or has agreed to the basis of accounting. Management's acknowledgement will suffice.

Examples of a third party include, but are not limited to a:

- banker
- supplier or customer
- purchaser of the business
- party to a dispute or litigation, such as matrimonial cases
- funder for a not-for profit organization

The third party may be in a position to request and obtain further information from the entity through:

- law or regulation
- contract
- negotiation
- other arrangements

(See CSRS 4200 Paras. 22 – 26 and A11 – A23)

Agree to the terms of the engagement

PREPARE AN ENGAGEMENT LETTER FOR EACH ENGAGEMENT!

A written agreement such as an engagement letter documents the terms of the engagement and helps avoid misunderstanding on the respective responsibilities of you and management, the scope of the engagement, and the form and content of the report to be issued.

A sample engagement letter is included in Appendix 1 of CSRS 4200.

It is important that the engagement letter be tailored to the particular engagement. It is recommended that you review the engagement letter with management so that they have a clear understanding of the engagement and of their responsibilities. Of course, management must sign and date the engagement letter to acknowledge their understanding, and you may document any related discussion.



QUESTION 9

Do I have to prepare an engagement letter every year for a recurring engagement?

No, it is not a requirement to prepare an engagement letter each year.

If it is not your normal practice to prepare an engagement letter for a recurring engagement each year, consider whether any of the following should be factored in as you evaluate whether to either revise the terms of engagement or remind management of the existing terms of engagement:

- an indication that management misunderstands the objective and scope of the engagement
- any revised or special terms of the engagement
- a recent change of senior management (or TCWG) of the entity
- a significant change in the ownership of the entity
- a significant change in nature or size of the entity's business
- a change in legal, regulatory, or contractual provisions affecting the entity
- an expected change in the use of the compiled financial information

(See CSRS 4200 Paras. 24 – 25, A23 and Appendix 1 to CSRS 4200)

Obtain Knowledge Related to the Entity

(See CSRS 4200 Paras. 27 and A24 – A26)

The knowledge related to the entity and the compilation engagement would include the following:

- the entity’s business and operations
- the entity’s accounting system and accounting records
- the basis of accounting to be applied and, where applicable, the accounting policies used in the preparation of the compiled financial information.

Often, the best way to obtain this knowledge is to ask the appropriate questions as part of your ongoing process throughout the engagement. You will use this knowledge in exercising your professional judgment in the various phases of the compilation engagement. Note that the breadth and depth of knowledge obtained in a compilation engagement is lower than in a review or audit engagement.



QUESTION 10

How much knowledge must I obtain about the entity to perform a compilation engagement, and how do I obtain this knowledge?

The amount of knowledge needed will vary by engagement, so there is no single correct answer. An area of professional judgment, the amount of knowledge you obtain needs to be sufficient for you to be able to assist management in preparing the compiled financial information according to the basis of accounting they have selected.

In obtaining knowledge of the entity’s business and operations, you may consider:

- the nature of the entity’s assets, liabilities, revenues and expenses
- the size and complexity of the entity and its operations

In obtaining knowledge of the entity’s accounting system and accounting records, you may consider:

- how transactions are recorded, classified and summarized in the entity’s financial information to determine:
 - the nature and extent of accounting adjustments that might need to be made for the compiled financial information to be prepared in accordance with the basis of accounting selected by management; and
 - whether the information provided is not otherwise **misleading**
- the types of matters that required accounting adjustments to the entity’s financial information in prior periods

The knowledge can be obtained from:

- prior engagements
- discussion with management or others within the entity
- other client engagements
- experience gained with the entity’s industry

(See CSRS 4200 Paras. 27, A9 and A24 – A26)

Basis of accounting

CSRS 4200 requires that the compiled financial information include a note describing the basis of accounting applied in the preparation of the compiled financial information.

The purpose of the description of the basis of accounting is to assist users in understanding how the compiled financial information was prepared.

Examples of bases of accounting commonly encountered in compilation engagements include:

- 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

As management may not have the necessary knowledge, you may help them select the basis of accounting. However, management is responsible for the compiled financial information and selection of the basis of accounting. Consequently, you are required to ask management to:

- Acknowledge the basis of accounting to be applied prior to accepting or continuing the engagement.
- Take responsibility for selecting that basis of accounting in the terms of engagement.
- Acknowledge responsibility for the final version of the compiled financial information.

The following is one possible example of the note:

Example – 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 on the historical cost basis and reflects cash transactions with the addition of:

- rent receivable based on lease terms, less an allowance for doubtful accounts
- revenue producing property 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

See [Appendix C](#) of this *Tool* for further examples.

**QUESTION 11****Does the basis of accounting used in the compilation engagement have to be a general-purpose framework, such as ASPE or ASNFPO?**

No, in fact, it would be rare for compiled financial information to be prepared in accordance with ASPE or ASNFPO. However, in the rare circumstance that management asks you to prepare compiled financial information in accordance with a general-purpose framework, you may ask management to consider whether an audit engagement or a review engagement would better address the needs of users.

If there are multiple third parties requiring different bases of accounting, this is a situation where a general-purpose framework could be useful. For example, in the year of selling the business where there is a banker and a potential purchaser, a general-purpose framework could meet the needs of both parties. However, in such a circumstance you may ask management to consider whether an audit engagement or a review engagement would better address the needs of these users.

**QUESTION 12****Is it possible that I could develop a standard description for the “basis of accounting” for all my compilation engagements?**

It is possible that many of your clients will have a similar basis of accounting.

However, it is likely that there will be differences. The industry, nature of assets, liabilities, revenues and expenses will differ, as will the type of compiled financial information (i.e., complete set of financial statements, a balance sheet and income statement, a schedule) and its use.

The purpose of describing the basis of accounting in the note to the compiled financial information is to help users understand how the compiled financial information is prepared.

See [Appendix C](#) of this *Tool* for examples of the description of the basis of accounting in specific circumstances.

**QUESTION 13****Can the basis of accounting be described as “ASPE with an exception ...”?**

It is possible; however, the compiled financial information must be prepared in accordance with all recognition, measurement, presentation and disclosure requirements of ASPE with an exception that can be clearly described with no potential for misunderstandings that may make the compiled financial information misleading. Caution is necessary as a description of the basis of accounting which refers to ASPE may imply full compliance with ASPE.

A description of the basis of accounting that contains imprecise qualifying and limiting language (e.g., “the financial information is in substantial compliance with Canadian Accounting Standards for Private Enterprises”) is not an adequate description, as it may mislead users of the compiled financial information.

Referring to ASPE in the basis of accounting note would be very rare in a compilation engagement where the majority of compiled financial information is prepared in accordance with a basis of accounting that is substantially different from ASPE, as the compiled financial information would normally exclude a cash flow statement and notes.

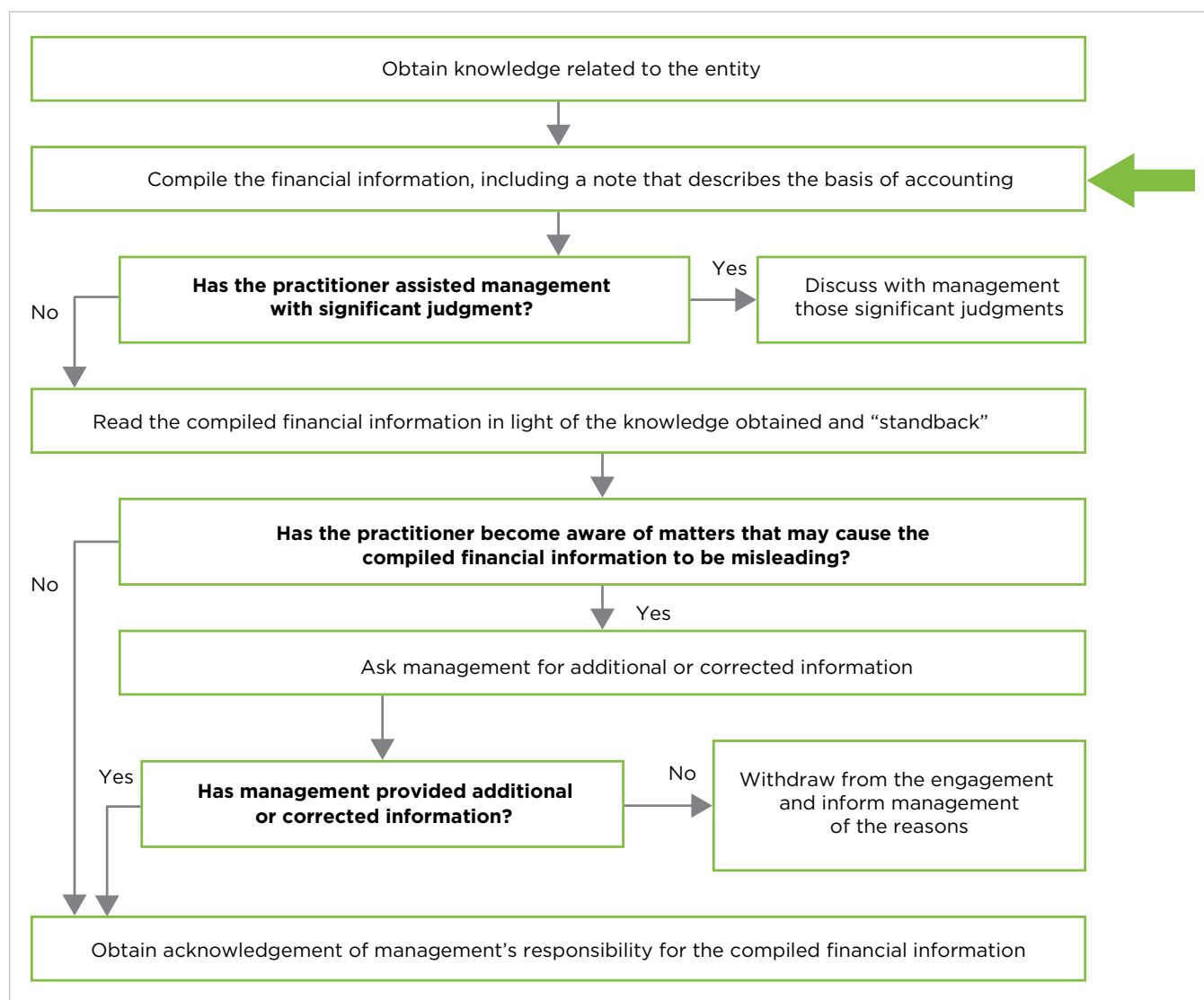
REMINDER: Full compliance with ASPE would mean all recognition, measurement, presentation and disclosure requirements are met, such as inclusion of a cash flow statement and full note disclosure.

(See CSRS 4200 Paras A29 – A30)

Compile the Financial Information

The following figure includes a summary of the process of performing a compilation engagement in accordance with CSRS 4200, and the arrow is placed to indicate where this step of compiling the financial information fits in.

FIGURE 3



**QUESTION 14****Is comparative financial information related to the previous period required in a compilation engagement?**

CSRS 4200 does not require or prohibit the inclusion of comparative information in the compiled financial information.

Therefore, the inclusion of comparative information is a matter of professional judgment.

**QUESTION 15****Are notes to the financial statements required in a compilation engagement?**

CSRS 4200 requires that you include a description of the basis of accounting but does not require or prohibit the inclusion of other notes. Additional notes may be included if considered useful or necessary to prevent the information from being misleading. (See [Appendix C](#) of this *Tool* for further discussion on the basis of accounting, and for examples of the description of the basis of accounting in specific circumstances.)

Therefore, the inclusion of notes to the financial information is a matter of professional judgment.

Note: In the **rare** occasion that a general-purpose framework such as ASPE is used, all required notes must be included.

**QUESTION 16****If comparative information is included in the compiled financial information and there is a change in the basis of accounting, do I have to retrospectively change the comparatives?**

Not necessarily, as CSRS 4200 does not address your responsibility when comparative information is included in the compiled financial information and there is a change in the basis of accounting from the previous year. The following options are possible:

1. retrospective restatement of the comparative information along with a description in the compiled financial information of the change in the basis of accounting
2. no retrospective restatement of the comparative information, only the inclusion of a description in the compiled financial information of the change in the basis of accounting
3. no retrospective restatement of the comparative information or inclusion of a description, assuming the change in the basis of accounting does not make the compiled financial information appear misleading

In some circumstances, the restatement and description may be considered necessary to prevent the compiled financial information from being misleading.

Reading the compiled financial information (sometimes referred to as “stand-back consideration”)

After preparing the compiled financial information, you must read the compiled financial information in light of your knowledge of the entity and the basis of accounting applied in preparing the compiled financial information, and consider if it does not appear misleading. CSRS 4200 uses the term “misleading” (rather than “false or misleading”) as the descriptor of the principle-based threshold that you apply when performing a compilation engagement.



QUESTION 17

Why does CSRS 4200 use the term “misleading” and not the phrase “false and misleading” to describe the threshold that I apply when performing a compilation engagement?

CSRS 4200 uses the term “misleading” in paragraph 30, which requires you to read the compiled financial information in light of your knowledge of the entity and the basis of accounting applied in the preparation of the compiled financial information, and consider whether such compiled financial information does not appear misleading. This *Tool* has referred to this requirement as a “stand-back consideration.”

CSRS 4200 uses the term “misleading” and not “false or misleading” to describe the threshold of potential “wrongness” in compiled financial information. It does not use the phrase “false or misleading” because the term “false” may inappropriately suggest that you have an obligation to read the compiled financial information to identify errors or incomplete information, even if insignificant. Nonetheless, a practitioner’s ethical responsibility to not be knowingly associated with information that is false or **misleading** applies to all aspects of their work, regardless of the service being provided.

If you become aware of matters that cause the compiled information to appear misleading, CSRS 4200 requires that you bring these matters to the attention of management and request additional or corrected information.

If you become aware of matters that cause the compiled financial information to appear misleading, and it is not resolved, you are reminded that your provincial *Code of Professional Conduct / Code of Ethics* requires that you not associate with such financial information.

(See CSRS 4200 Paras. 30 and A32)

**QUESTION 18****How do I consider what may appear to be misleading in the compiled financial information?**

The way to consider what may appear to be misleading requires that you use professional judgment, taking into account your knowledge of the entity and the basis of accounting applied, and the facts and circumstances known to you.

The use of professional judgment requires you to apply relevant training, knowledge, experience and the ethical requirements that exist within the context of CSRS 4200.

(See CSRS 4200 Para. 15 for the definition of professional judgment and Paras. 21 and A9 on the use of professional judgment)

Issue the Compilation Engagement Report

(See CSRS 4200 Paras. 37 – 38)

After you have obtained acknowledgment from management (or TCWG, as appropriate) that it has taken responsibility for the final version of the compiled financial information, you can issue the compilation engagement report. A sample compilation engagement report is included in Appendix 2 of CSRS 4200 and [Appendix B](#) of this *Tool*.

**QUESTION 19****What date do I use on the compilation engagement report?**

The date of the compilation engagement report is the date you have completed the compilation engagement in accordance with CSRS 4200, which includes having management acknowledge (or TCWG, as appropriate) that they have taken responsibility for the final version of the compiled financial information.

(See CSRS 4200 Para. 38)

**QUESTION 20****Do I have to label the compiled financial information as “unaudited”?**

No, CSRS 4200 does not require you to label the compiled financial information as “unaudited.”

Section 9200 included a requirement to label each page of the compiled financial information as “Unaudited – See Notice to Reader.” The reason that this requirement is not included in CSRS 4200 is that such labelling is not a key driver in informing users about the limitations of the compiled financial information. Consistent with reporting in an audit engagement and a review engagement, the compilation engagement report is the appropriate way to inform users of the limitations of the compiled financial information.

(See Basis for Conclusions Paras. 49 and 50)



QUESTION 21

If management indicated that the compiled financial information is not intended to be used by a third party, am I responsible for monitoring that management does not in fact provide the compiled financial information to a third party?

No, CSRS 4200 does not impose obligations on you to monitor the distribution of the compiled financial information by management after the compiled financial information has been issued. It is management, not you, that determines the distribution of the compiled financial information.

There may be circumstances when a third party requests the compiled financial information (from the client) after you have issued the report, such as when a potential buyer asks for the entity's last three years of financial information. As mentioned, you do not control or have to monitor the distribution of the compiled financial information, you do not have any additional responsibilities in this situation.

REMINDER: This question addresses the situation where management has indicated that the compiled financial information is not intended to be used by a third party. However, you are reminded that the engagement letter (or other suitable form of written agreement) includes an acknowledgment from management that they understand that compiled financial information is not to be used by third parties unless they would meet the following conditions for accepting (or continuing) the engagement:

- The third party is in a position to request or obtain further information, or
- The third party has agreed with management on the basis of accounting applied in the preparation of the compiled financial information.

Additional discussion on your responsibilities when, after the compiled financial information has been issued, and management wants to provide the compiled financial information to a third party not contemplated when accepting or continuing the engagement, is included in Paras. 20 to 22 of the Basis for Conclusions.

(See CSRS 4200 Paras. 25(e)(iii) and A38)

Possible Withdrawal From Engagement

(CSRS 4200 Paras. 31 – 32 and A33 – A34)

CSRS 4200 addresses situations when it may be necessary to withdraw from a compilation engagement. You are required to withdraw from the engagement if:

- you become aware of matters that cause the compiled financial information to appear misleading and management does not provide additional or corrected information, or
- you are otherwise unable to complete the engagement.

You may be unable to complete the engagement in the following situations:

- management does not provide you with the records, documents, explanations or other information needed to compile the financial information

- a correction is necessary to the compiled financial information and management refuses to make (or allow) the correction to be made
- you become aware of information that was not known at the time the engagement was accepted that, had it been known, you would not have accepted the engagement

You may communicate either orally or in writing to management the reason for withdrawing from the engagement.

If withdrawing from the engagement is not possible under relevant ethical requirements, you may consider it appropriate to seek advice about what professional and legal responsibilities apply in the circumstances.

Subsequent Discovery of Facts

(See CSRS 4200 Paras. 34 – 36)

If a fact becomes known to you after the date the compiled financial information has been issued that, if it was known to you at the date of the compilation engagement report, may have caused you to believe that the compiled financial information appeared misleading, then:

- Discuss the matter with management (or TCWG, as appropriate);
- Determine whether the compiled financial information needs to be amended; and if so,
- Inquire how management intends to address the matter.

If the compiled financial information is not amended in circumstances where you believe it needs to be, or if you become aware that management has not taken the appropriate steps to address the matter, refer to Canadian Standard on Association (CSOA) 5000, *Use of the Practitioner's Communication or Name*, to understand your responsibilities when you become aware of an intended or actual inappropriate use of your communication or name.

**QUESTION 22****What should I do if management brings to my attention that the compiled financial information that I have issued is misleading and requests that the compiled financial information be amended?**

If management requests that the compiled financial information be amended and you provide a new compilation engagement report on the amended compiled financial information, CSRS 4200 requires that you:

- Prepare the amended compiled financial information, including a note describing the nature of the amendment, and
- Refer, in the new compilation engagement report, to the note in the amended compiled financial information that describes the nature of the amendment of the previously issued compiled financial information and to the earlier compilation engagement report provided by the practitioner.

In addition, CSRS 4200 requires that you advise management to:

- Inform users in receipt of the previously-issued compiled financial information and the earlier compilation engagement report that the compiled financial information has been amended; and
- Provide users with the amended compiled financial information together with the new compilation engagement report.

An example of the reference to the note in the new compilation engagement report on the amended compiled financial information follows:

Amended Financial Information

We draw attention to Note X to the compiled financial information, which describes that the compiled financial information that we originally reported on March 20, 20X2 has been amended and describes the nature of the amendment of the previously issued compiled financial information.

Note X

The compiled financial information for the year ended December 31, 20X1 has been amended to reflect inventory being measured at cost of \$100,000 when on the original compiled financial information, it was measured at cost of \$200,000. This amendment was made to adjust for a correction of the cost of some units. The amendment decreased inventory by \$100,000, increased cost of sales by \$100,000, decreased the income tax expense and payable by \$30,000, and decreased net income and retained earnings by \$70,000.

(See CSRS 4200 Para. 35)

Documentation

Documentation

[Figure 1](#) includes the word “Documentation” on the outside of the diagram to represent that documentation is relevant to all aspects of the compilation engagement. CSRS 4200 establishes the minimum:

- work effort and that all work effort must be documented
- documentation requirements to improve consistency in the level of documentation

The main principle of CSRS 4200 is that the documentation be, in the practitioner’s judgment, sufficient to enable an experienced practitioner having no previous connection with the engagement to understand how the requirements of CSRS 4200 were met.

The minimum documentation would include the following:

- the **engagement letter** or other suitable form of written agreement with management
- a **description of the entity’s business, operations, accounting system, accounting records and the basis of accounting applied and, where applicable, the accounting policies used** in the preparation of the compiled financial information
- a **reconciliation of the entity’s accounting records to the compiled financial information**, including any adjusting journal entries or other amendments to the compiled financial information that you have agreed with management in the course of the engagement
- where applicable, the **discussion with management regarding significant judgments** for which you have provided assistance in the course of preparing the compiled financial information
- where applicable, the **communication to management regarding matters that may cause the compiled financial information to appear to be misleading and how management has addressed these matters**
- a copy of the **final version of the compiled financial information** for which management (or TCWG, as appropriate), have taken responsibility
- a copy of the **compilation engagement report**
- the communication to management of the reason(s) for withdrawing from the engagement, where applicable

Though there are specific requirements, the extent of documentation is ultimately a matter of professional judgment.

(See CSRS 4200 Para. 39)



QUESTION 23

How much work effort and documentation are necessary to meet the requirement to obtain and document my knowledge of the accounting system and accounting records?

It is a matter of professional judgment!

The sample working paper excerpts for knowledge of entity below include an example of a description, obtained through inquiry, related to the accounting system and accounting records.

[See CSRS 4200 Paras. 27(b) and 39(b)]

An example:

The following example provides an extract of possible documentation related to business operations, accounting systems and records for a simple entity:

Business and Operations

- The company's principle business is providing engineering services to construction companies with fees based on time spent.
- Ms. Jackson and two other engineers perform all engineering work, and there is one administrative assistant / receptionist.
- Nature of assets, liabilities, revenues and expenses:
 - Assets include accounts receivable, office furniture, computer equipment and software, and work in progress.
 - Liabilities include accounts payable and accrued liabilities, a demand loan with Canada Bank.
 - Revenues include professional fees for engineering services provided, and the major expense is salary.
- Key advisors: lawyer, bank, insurance broker, bookkeeper [with addresses].

Accounting System and Accounting Records

QuickBooks version 2019

QuickBooks username: [insert]

Transactions recorded by management, staff and contracted bookkeeper: [insert name of bookkeeper]

Output of software used by management include: general ledger, trial balance or system-generated financial information

Accounting adjustments: Historically, adjustments have been made to accrue certain unrecorded liabilities; to record depreciation on office furniture, computers and software, work-in-progress; and the income tax provision. [insert reference to previous file and journal entries, if relevant.][The basis of accounting could also be added here, and examples are included in [Appendix C](#) of this *Tool*.]

All staff are on salary and payroll records are prepared internally (including T4s/T4 Summary) and then processed with direct deposit every two weeks

GST filings are completed by the bookkeeper using the Quick Method

**QUESTION 24****Do I have to obtain a management representation letter?**

No, there is no requirement in CSRS 4200 to obtain a representation letter from management.

However, CSRS 4200 requires that you obtain acknowledgment from management (or TCWG, as appropriate), that it has taken responsibility for the final version of the compiled financial information, which includes the final basis of accounting applied in the preparation of the compiled financial information.

REMINDER: This acknowledgment may take different forms, such as:

- a signature on the final version of the compiled financial information
- a written communication (e.g., in paper form, or by electronic or other medium)
- an oral acknowledgment documented in the working paper file

(See CSRS 4200 Para. 33)

**QUESTION 25****How do I document the reconciliation of the entity's accounting records to the compiled financial information?**

How you document the reconciliation of the entity's accounting records to the compiled financial information, including any adjusting entries or other amendments, is a matter of professional judgment.

The documentation will include any adjusting journal entries or other amendments to the compiled financial information that you have agreed to with management during the engagement. In addition, the documentation may include a note in your working paper file that describes that:

- The general ledger was imported from the entity's records and the compiled financial information agrees to your working paper file,
- You have agreed the compiled financial information to relevant accounting records, such as the general ledger, or
- You have agreed the compiled financial information to a schedule such as an adjusted trial balance. This does not mean the adjusted trial balance must be included in the working paper file.

[See CSRS 4200 Para. 39(c)]



QUESTION 26

When you assist management with significant judgments, you are required to discuss the significant judgments and document this discussion. What is a “significant judgment,” and how would I document this discussion?

What would be considered a “significant judgment” in a compilation engagement depends on the circumstances. A significant judgment could be making an accounting estimate, such as the allowance for doubtful accounts, or selecting the revenue recognition policy. What is significant is a matter of judgment and may be based on the nature and size of the related item and/or the implications to the users of the compiled financial information.

The objective of the discussion is to have management understand the significant judgment and their impact on the compiled financial information, and to have them accept responsibility for the significant judgments included in the compiled financial information.

Documentation of the discussion that indicates management understands the significant judgment and the impact on the compiled financial information could be in the form of a narrative in the working paper file. Alternatively, if journal entries are prepared to reflect the discussion, and are well explained, management could approve the related journal entries to document the discussion and management’s understanding.

(See CSRS 4200 Paras. 29 and A31)



QUESTION 27

How do I document that management (or TCWG) have taken responsibility for the compiled financial information?

The acknowledgment from management (or TCWG, as appropriate), that it has taken responsibility for the final version of the compiled financial information may take different forms, such as:

- a signature on the final version of the compiled financial information
- a written communication (e.g., in paper form, or by electronic or other medium)
- an oral acknowledgment documented in the working paper file

A possible example of working paper file documentation follows:

Prepared by Engagement Partner
02/15/X1

Do you accept responsibility for the final version of the compiled financial information for the year-ended December 31, 20X1?

I asked the above question at year-end meeting held on February 15, 20X1, at the client’s premises, with John Smith answering “yes.”

Alternatively, the discussion may be through email with the response from management included in the working paper file.

(See CSRS 4200 Paras. 33 and A35)

What can you do to prepare?

The following steps will help you prepare for these new engagements:

Step 1: Read the new standard (CSRS 4200 including the application material and Basis for Conclusions).

Step 2: Identify your current and potential compilation engagement clients.

Step 3: Discuss the new standard with management.

Step 1: Read CSRS 4200

The first thing to do is complete a full reading of CSRS 4200, to obtain an understanding of the requirements. A careful reading of CSRS 4200 will help you understand the requirements and exactly how the CSRS 4200 may affect you. Also, read the AASB's Basis for Conclusions for CSRS 4200. In addition, read the other material identified in this *Tool*, as needed, including:

- the provincial *Code of Professional Conduct / Code of Ethics* related to independence disclosure requirements in a compilation engagement
- Canadian Standard on Association (CSOA) 5000, *Use of the Practitioner's Communication or Name*, to understand your responsibilities when you become aware of an intended or actual inappropriate use of your communication or name

Step 2: Identify your current and potential compilation engagement clients

The next step is to identify all current and potential compilation engagements. Identify the engagements that may (or may not) be scoped into CSRS 4200. **Reminder:** Make sure you include all practitioners in your office in the discussion to identify all potential compilation engagements.

Step 3: Discuss CSRS 4200 with management

Plan for a discussion with management on what services they require to determine if a compilation engagement in accordance with CSRS 4200 is the right service for their needs. If CSRS 4200 is the applicable standard, discuss aspects of the engagement that may be new, such as the basis of accounting to be applied and the new compilation engagement report that will be issued. (Use the [Management Briefing](#) and [Third-Party Briefing](#) to facilitate the discussion, as appropriate.)

Additional Resources

CPA Canada has developed a specific landing page on its website to house additional resources, which you can find at: www.cpacanada.ca/compilations

In addition:

- Visit the [AASB resource page](#).
- Watch for updates to the *Professional Engagement Guide* (PEG), expected in August 2020.

Appendix A – Significant Differences Between CSRS 4200 and Section 9200

This appendix discusses the significant differences between CSRS 4200 and Section 9200 and how they may affect your practice in the following areas:

- Scope
- Engagement acceptance and continuance
- Performing the engagement (“work effort”)
- Describing the basis of accounting
- Communication
- Documentation

	Section 9200	CSRS 4200	Implication
Scope	Section 9200 sets out some specific exclusions.	CSRS 4200 sets out scope exclusions that are more extensive than those in Section 9200. In the circumstances when CSRS 4200 does not apply, you may decide or be requested to issue a communication on the compiled financial information. In that case, the requirements of CSRS 4200 apply in their entirety. (See CSRS 4200 Paras. 1 – 3)	CSRS 4200 introduces further exclusions from the scope to provide clarity on when the standard does and does not apply. Some engagements that previously were completed under Section 9200 may no longer be in the scope of CSRS 4200.

	Section 9200	CSRS 4200	Implication
<p>Engagement acceptance and continuance when the compiled financial information is intended to be used by a third party</p>	<p>Section 9200 did not include requirements for accepting or continuing the engagement when the compiled financial information is intended to be used by a third party.</p>	<p>CSRS 4200 sets out conditions for accepting or continuing the engagement that were not in Section 9200, relating to when the compiled financial information is intended to be used by a third party. To accept or continue the engagement, CSRS 4200 requires that the third party:</p> <ul style="list-style-type: none"> • be in a position to request and obtain further information from the entity, or • have agreed with management the basis of accounting to be applied <p>A third party that does not meet these criteria may be misled by compiled financial information prepared in accordance with a basis of accounting that is other than a general framework.</p> <p>(See CSRS 4200 Paras. 22 and 26)</p>	<p>CSRS 4200 introduces engagement acceptance and continuance requirements to provide clarity on when it is appropriate to accept or continue an engagement when there is a third-party user.</p> <p>Note: New engagement letters must be prepared. An example of an engagement letter is included as Appendix 1 of CSRS 4200.</p>

	Section 9200	CSRS 4200	Implication
Performing the engagement (“work effort”)	<p>Section 9200 provided limited guidance on the required work effort, which may have led to the variability in the extent of work performed in practice.</p> <p>Section 9200 described the work effort as merely arranging information into the form of a financial statement and checking that the assembly of information is arithmetically correct. This work effort was framed around the practitioner’s responsibilities to not be associated with financial statements that he or she knows, or should know, are false or misleading.</p>	<p>The performance requirements of CSRS 4200 are more extensive and robust than those in Section 9200.</p> <p>The term “misleading” describes the principles-based threshold that you should consider when performing a compilation engagement.</p> <p>(See CSRS 4200 Paras. 27 – 33)</p>	<p>CSRS 4200 establishes the minimum work effort requirements. The new requirements will improve consistency of engagement performance and reflect good practice. Depending on the way engagements were completed under Section 9200, there may be a change in the work effort.</p>
Describing the basis of accounting	<p>Section 9200 did not address or require a description of the basis of accounting.</p>	<p>CSRS 4200 requires that the compiled financial information include a note describing the basis of accounting applied in the preparation of the compiled financial information.</p> <p>(See CSRS 4200 Para. 28)</p>	<p>Attach a new note in the compiled financial information.</p> <p>(See the discussion earlier in this <i>Tool</i> and Appendix C for examples)</p>

	Section 9200	CSRS 4200	Implication
Communication	Section 9200 requires a communication to be attached to the compiled financial information entitled “Notice to Reader”	Attach a new communication entitled “Compilation Engagement Report.” It includes descriptions of the responsibilities of management and the practitioner, and an expanded explanation of the limitations of the compiled financial information. (See CSRS 4200 Paras. 37 – 38)	Attach a new report – see Appendix B of this <i>Tool</i> for the new report with some of the key differences highlighted.
Documentation	Section 9200 did not include requirements that addressed documentation.	CSRS 4200 sets out aspects of the engagement that you are required to document and maintain in the working paper files. (See CSRS 4200 Para. 39)	CSRS 4200 establishes the minimum documentation requirements. The new requirements will improve consistency among practitioners in the level of documentation.

Appendix B – 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) acknowledgment of its responsibility for the final version of the compiled financial information.

Appendix C – Examples of Descriptions of the Basis of Accounting

An important feature of Section 9200 was that the standard was applied using a broad range of possible bases of accounting. CSRS 4200 is premised on the same principle and explains that compiled financial information may be prepared in accordance with different bases of accounting. Bases of accounting may be established by one of the following:

- an authorized or recognized standards-setting organization
- prescribed by law, regulation or contract
- developed by management

CSRS 4200 requires that you include a note in the compiled financial information describing the basis of accounting applied in the preparation of the compiled financial information. The purpose of this note is to assist users in understanding how the compiled financial information is prepared.

Illustrations of bases of accounting commonly encountered in compilation engagements are:

- a cash basis of accounting; for example:
 - The financial information has been prepared on the cash basis of accounting. (See CSRS 4200 Para. A29)
- a cash basis of accounting with selected accruals and accounting estimates:
 - See examples below for variations on this basis of accounting within specific industries.
- a basis of accounting prescribed by a contract or other form of agreement established by a creditor or regulator; for example:
 - The financial information has been prepared on a basis of accounting prescribed by the provision in the contract between ABC Company and the bank of ABC Company. (See CSRS 4200 Para. A29)

Management may not possess the necessary knowledge to identify the basis of accounting and may need your assistance. While you may provide assistance, management retains responsibility for the compiled financial information and the selection of the basis of accounting.

Factors that you may consider in helping management identify the basis of accounting to be applied in the preparation of the compiled financial information include:

- the nature of the entity
- the intended use of the compiled financial information
- whether there are any specific financial reporting requirements under applicable law or regulation or contractual provisions with a third party

The following examples of the cash basis of accounting with selected accruals and accounting estimates are provided for illustration only:

Example 1: Real estate rental company (included earlier in this *Tool* and reproduced here for convenience)

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 on 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 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

Example 2: Retail company

The basis of accounting applied in the preparation of the financial information is on the historical cost basis, reflecting cash transactions with the addition of:

- inventory valued using the retail method
- property, plant and equipment amortized over their useful life
- accounts payable and accrued liabilities
- current income taxes payable as at the reporting date

Example 3: Professional services company

The basis of accounting applied in the preparation of the financial information is on the historical cost basis, reflecting cash transactions with the addition of:

- accounts receivable less an allowance for doubtful accounts
- work-in-progress accounted for on a net realizable value basis
- property, plant and equipment amortized on the same basis as for income tax
- accounts payable and accrued liabilities
- current income taxes payable as at the reporting date

Example 4: Agriculture company

The basis of accounting applied in the preparation of the financial information is on the historical cost basis, reflecting cash transactions with the addition of:

- accounts receivable
- livestock and crop inventory accounted at net realizable value
- property, plant and equipment amortized over their useful life

- accounts payable and accrued liabilities
- current income taxes payable as at the reporting date

Example 5: Investment 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, reflects cash transactions with the addition of:

- amounts receivable
- investments recorded at cost
- rental property recorded at historical cost and amortized on the same basis as for income tax
- accounts payable and accrued liabilities
- current income taxes payable as at the reporting date

Appendix D – Communication With Management and Others

Communication with management and others includes formal communications such as the engagement letter and the compilation engagement report. Other communications, such as inquiry and acknowledgments, may take place between management, others within the entity and TCWG (as appropriate). The following table summarizes other required communications.

“WHAT” (Topic of communication that is needed)	“WHEN” (Suggested timing)	Reference*	“HOW” (Form of communication – written, verbal, sign-off, etc.)
<p>Intended use of compiled financial information</p> <p>Inquiries of management about the intended use of the compiled financial information, including whether that information is intended to be used by a third party.</p> <p>When the compiled financial information is intended to be used by a third party, additional inquiries will help determine whether the third party is in a position to request or obtain further information or whether they have agreed with management on the basis of accounting.</p>	<p>Prior to engagement acceptance (or continuance)</p>	<p>CSRS 4200 Paras. 22(a) and 23</p>	<p>This inquiry can be oral or written.</p> <p>Documentation of the inquiry related to the intended use of the compiled financial information (and the conditions for acceptance if there is a third party) is included in the working paper file and acknowledged in the engagement letter (or other suitable form of written agreement).</p>
<p>Independence</p> <p>Inquiry related to independence with the possible disclosure of any unresolved threats to your independence being included in the Compilation Engagement Report.</p>	<p>Prior to engagement acceptance (or continuance) and reporting, if applicable.</p>	<p>Ethical requirements are specified in detail in the provincial <i>Code of Professional Conduct / Code of Ethics</i></p>	<p>Discussions can be oral or written and documented in the working paper file using a checklist or memo.</p>
<p>Expected basis of accounting</p> <p>Prior to accepting or continuing a compilation engagement a practitioner shall obtain acknowledgment from management of the basis of accounting expected to be applied in the preparation of the compiled financial information.</p>	<p>Prior to engagement acceptance (or continuance)</p>	<p>CSRS 4200 Para. 22(b)</p>	<p>This acknowledgment can be oral or written.</p> <p>Include documentation of oral acknowledgment in the working paper file.</p>

“WHAT” (Topic of communication that is needed)	“WHEN” (Suggested timing)	Reference*	“HOW” (Form of communication – written, verbal, sign-off, etc.)
<p>Knowledge of the entity</p> <p>Discussions with management or others within the entity who assist you in obtaining the knowledge sufficient to perform the compilation engagement.</p>	<p>Performing the engagement</p>	<p>CSRS 4200 Paras. 27, A24 – A26</p>	<p>Discussions can be oral or written.</p> <p>Use a checklist or memo to include documentation of the discussions in the working paper file.</p> <p>Note: Obtaining knowledge is an ongoing process and can be obtained in ways other than discussions with management and others, such as from prior engagements, from other engagements and from your own experience with the entity’s industry.</p>
<p>Significant judgments (if you provide assistance)</p> <p>Discussions with management about significant judgments for which you have provided assistance in the course of preparing the compiled financial information, so that management understands the impact of the significant judgments on the compiled financial information and accepts responsibility for those judgments.</p>	<p>Performing the engagement, if applicable</p>	<p>CSRS 4200 Para. 29</p>	<p>Discussions with management can be oral or written.</p> <p>Use a checklist or memo to include documentation of the discussions in the working paper file.</p>
<p>Matters that may cause the financial information to appear misleading</p> <p>Inform management if you become aware of matters that may cause the compiled financial information to appear misleading; request additional or corrected information and discuss how management has addressed these matters.</p>	<p>Performing the engagement, if applicable</p>	<p>CSRS 4200 Para. 31</p>	<p>Where applicable, you can inform management of the matters and request additional or corrected information; this can be orally or written.</p> <p>Use a checklist or memo to include documentation of the discussions in the working paper file.</p>

“WHAT” (Topic of communication that is needed)	“WHEN” (Suggested timing)	Reference*	“HOW” (Form of communication – written, verbal, sign-off, etc.)
<p>Acknowledgment of responsibility for the final version of the compiled financial information</p> <p>You must obtain an acknowledgment from management (or TCWG, as appropriate), that it has taken responsibility for the final version of the compiled financial information.</p>	<p>Reporting</p>	<p>CSRS 4200 Para. 33</p>	<p>The acknowledgement may take different forms, such as:</p> <ul style="list-style-type: none"> • a signature on the final version of the compiled financial information • a written communication (e.g., in paper form, or by electronic or other medium) • an oral acknowledgment documented in the working paper file
<p>Facts that become known after the compiled financial information has been issued</p> <p>Discussion with management (or TCWG, as appropriate) if, after the date the compiled financial information has been issued, you become aware of a fact that, had you known it at the date of the compilation engagement report, it may have caused you to believe that the compiled financial information appeared misleading.</p> <p>If you determine that the compiled financial information needs to be amended, inquire of management on how they intend to address the matter in the financial information.</p> <p>If management requests that the compiled financial information be amended, then you need to advise them to inform the users of the amendment when providing them with the amended compiled financial information.</p>	<p>After issuance, if applicable</p>	<p>CSRS 4200 Paras. 34 and 35</p>	<p>Where applicable, discussion with management (or TCWG, as appropriate) can be oral or written.</p> <p>Inquiry of management on how they intend to address the matter can be oral or written.</p> <p>The advisement to management related to amended compiled financial information can be oral or written.</p> <p>Use a checklist or memo to include documentation of the discussion in the working paper file.</p>

“WHAT” (Topic of communication that is needed)	“WHEN” (Suggested timing)	Reference*	“HOW” (Form of communication – written, verbal, sign-off, etc.)
<p>Withdrawing from the engagement</p> <p>Communication with management if withdrawal from the engagement is appropriate. For example, withdrawal may be appropriate in a circumstance where management does not address a matter that may cause the financial information to appear to be misleading. The reasons for the withdrawal will be communicated to management.</p>	If applicable	CSRS 4200 Para. 32	<p>The nature of the discussion and communication of the reasons for the withdrawal (and related documentation), will vary in nature and extent dependent on the reason for the withdrawal.</p> <p>(Consider seeking advice on any professional and legal responsibilities applicable in the specific circumstance.)</p>

*CSRS 4200 Para. 39 is the relevant reference for the documentation of how the requirements of CSRS 4200 are met, including these communications.

About This Publication

The Research, Guidance and Support group of the Chartered Professional Accountants of Canada (CPA Canada) undertakes initiatives to support practitioners and businesses in the implementation of standards.

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This publication has not been updated since the publication date of June 2020. Practitioners are expected to use professional judgment in determining whether the material in this publication is both appropriate and relevant to the circumstances of each engagement.

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