

Audit & Assurance Alert

CANADIAN STANDARD ON RELATED SERVICES (CSRS) 4200, *COMPILATION ENGAGEMENTS*

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

- COMPILATION ENGAGEMENTS, Section 9200
- ASSURANCE AND RELATED SERVICES GUIDELINE AuG-5, *Compilation Engagements – Financial Statement Disclosures*

This *Audit & Assurance Alert (Alert)* is being issued to raise the awareness of practitioners and others about this new standard on compilation engagements. CSRS 4200 includes new performance and reporting requirements.

Compilation engagements (informally referred to as “Notice to Reader” or “NTR” under Section 9200)

In practice, many referred to the previous compilation engagements by the title of the report under Section 9200, “Notice to Reader.” This *Alert* will use “compilation engagements” and “compilation engagement report,” which match the new CSRS 4200 terminology.

When Is CSRS 4200 Effective?

Effective Date: CSRS 4200, *Compilation Engagements*, is effective for compiled financial information for periods ending on or after **December 14, 2021**. Earlier application of CSRS 4200 is permitted.



Why Is the Change Needed?

Section 9200 needs replacement, because it has not been significantly revised since it was issued in 1987.

After extensive consultation, the AASB identified the following issues. There is:

- confusion among practitioners as to whether certain services fall within the scope of Section 9200
- a gap between the premise in Section 9200 that the compiled financial information is meant for use by management and the reality of the current environment that compiled financial information is often used by third parties, such as lenders
- variation in the extent of work performed by practitioners in compilation engagements
- variation in the level of documentation included in the working-paper file
- a gap between lenders' perception of the extent of work practitioners perform in compilation engagements and what was required by Section 9200
- a lack of clarity as to the basis of accounting applied in the preparation of compiled financial information

CSRS 4200 addresses these issues and will:

- assist you in performing compilation engagements in the current environment
- require a new compilation engagement report that clearly communicates to the users of the compiled financial information the responsibilities of management and the practitioner as well as the nature and scope of the compilation engagement (see the new report later in this *Alert*)

Significant Differences Between CSRS 4200 and Section 9200

CSRS 4200 changes the performance requirements for compilation engagements. The extent of the changes can be identified by looking at the significant differences between CSRS 4200 and Section 9200.

The effect of the changes on your compilation engagements will depend on your current practices.

The key changes discussed in this *Alert* include the following:

1. Scope
2. Engagement Acceptance or Continuance
3. Description of the Basis of Accounting
4. Performing the Engagement or "Work Effort" and Documentation
5. Reporting

1. Scope

CSRS 4200 includes a scope that clarifies which services constitute compilation engagements. In doing so, it introduces new exclusions from the scope and clarifies when they apply.

The following table summarizes when 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
 - litigation support
 - personal financial planning

* 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 this *Alert*) to which *all* requirements of CSRS 4200 apply.

Key Points on the Scope of CSRS 4200

You are not required to complete a compilation engagement or issue a compilation engagement report if asked to provide services that are excluded from CSRS 4200. For example, you may provide bookkeeping services and prepare the corporate tax return, but since both services are exclusions in CSRS 4200, completion of a compilation engagement under CSRS 4200 is not required.

In another example, you may provide CFO services and prepare the corporate tax return. Again, since both are exclusions in CSRS 4200, a compilation engagement under CSRS 4200 is not required.

It is important to note that in both examples, you could choose to perform a compilation engagement under CSRS 4200 if agreed upon with management. If you are asked to provide bookkeeping services and prepare the corporate tax return (both exempt services under CSRS 4200) but are also asked by management to provide financial information with a report attached, then the preparation of financial information falls under the scope of CSRS 4200 even though the other two services do not.

2. Engagement Acceptance or Continuance

Prior to accepting or continuing a compilation engagement, you must:

- make inquiries of management regarding the intended use of the compiled financial information, including whether that information is intended to be used by a third party
- obtain an acknowledgment from management that it agrees with the basis of accounting expected to be applied in the preparation of the financial information

In those situations, when the compiled financial information is intended to be used by a third party and the basis of accounting to be applied in the preparation of the compiled financial information is other than a general purpose framework, management must acknowledge that the third party either:

- is in a position to request and obtain further information from the entity or
- has agreed with management on the basis of accounting to be applied

For example, a lender may be able to request and obtain further information through the terms of the lending agreement or other arrangements.

If neither condition mentioned above has been met, you cannot accept or continue the compilation engagement unless the basis of accounting to be applied in the preparation of the compiled financial information is a general purpose framework (e.g., Accounting Standards for Private Enterprises [ASPE]).

The basis of accounting is *not* expected to be a general purpose framework. In the rare circumstance that it is (e.g., ASPE), and the compiled financial information is intended to be used by a third party, you may ask management to consider whether a review engagement (or an audit engagement) would better address the needs of users than a compilation engagement.

Key Points on Engagement Acceptance or Continuance

With the adoption of CSRS 4200, a new engagement letter will be needed. It is possible to include multiple services in a single engagement letter, or you may prefer separate engagement letters for each service. A sample engagement letter is included in CSRS 4200.

As indicated above, CSRS 4200 requires you to ask management the intended use of the compiled financial information, including whether it is intended to be used by a third party. There is no requirement to monitor any third-party use after release.

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.

3. Description of the 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 help users understand how the compiled financial information was prepared. 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

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

The following is one possible example of the note:

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 and reflects 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

Key Points on Description of Basis of Accounting

A description of the basis of accounting is required to be included in a note in the compiled financial information.

CSRS 4200 does not specify the basis of accounting to be used in preparing the compiled financial information. The basis of accounting to be used is selected by management. It would be rare that a general purpose framework such as ASPE would be the basis of accounting used in preparing the compiled financial information. It is important to remember that compiled financial statements prepared in accordance with ASPE would include a full set of financial statements, including a statement of cash flows, full note disclosure, and comparative information.

CSRS 4200 neither requires nor prohibits the inclusion of a statement of cash flows, comparative information or additional notes to the financial information.

4. Performing the Engagement or “Work Effort” and Documentation

After the acceptance decision has been made and the engagement details have been specified in the engagement letter, the work effort required by CSRS 4200 can be summarized as follows:

1. **Obtain knowledge** related to the entity’s business and operations, accounting system and records and the basis of accounting used.
2. If you are to assist management with significant judgments, such as making an accounting estimate or selecting an accounting policy, **discussion with management** is required so management can understand enough to accept responsibility for the judgments / adjustments.
3. **Prepare the compiled financial information**, including the note that describes the basis of accounting applied in the preparation of the compiled financial information.
4. **Read the compiled financial information** in light of your knowledge of the entity and the basis of accounting used in the preparation of the compiled financial information, and consider whether the compiled financial information does not appear misleading.
5. **Communicate** with management regarding any matters that cause the compiled information to appear to be misleading and request additional or corrected information.
6. **Obtain acknowledgment of management’s responsibility** for the compiled financial information. CSRS 4200 does not require this acknowledgment to be in the form of a representation letter, and provides some examples of other ways in which it can be obtained and documented.
7. **Document** the work effort that demonstrates how the requirements of CSRS 4200 have been met.

5. Reporting

A NEW Report!

CSRS 4200 requires a new form of report that more clearly describes the responsibilities of management and the practitioner as well as the nature and scope of the engagement. An example of the new compilation engagement report is included in Appendix 2 of CSRS 4200 and is reproduced below, with some of the key points highlighted in callouts.

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.

Summary of CSRS 4200

The components of a compilation engagement under CSRS 4200 can be summarized as follows:

Ethical Requirements		Communications, Including Discussions With Management**
Professional Judgment	<p>Acceptance or Continuance</p> <ul style="list-style-type: none"> Obtain management's acknowledgment of the basis of accounting that is expected to be applied. Inquire concerning intended use of the compiled financial information. Prepare new engagement letter. 	
	<p>Perform the Engagement</p> <ul style="list-style-type: none"> Obtain an understanding of the entity and its environment. Compile the financial information. Discuss with management significant judgments for which assistance had been provided. Read the compiled financial information. Bring matters to the attention of management, if necessary. Obtain management's acknowledgment of responsibility for the final version of the compiled financial information. 	
	Compilation Engagement Report	
Documentation		

** And TCWG, if applicable.

What Can You Do to Be Ready for CSRS 4200?

- Read CSRS 4200, *Compilation Engagements*. CSRS 4200 has the following requirement: "The practitioner shall have an understanding of the entire text of this CSRS, including its application and other explanatory material, to understand its objectives and to apply its requirements properly."
- Read the [Basis for Conclusions](#) issued by the AASB for CSRS 4200.
- Visit the CPA Canada resource page (see below).
- Visit the [AASB resource page](#).
- Watch for updates to the *Professional Engagement Guide* (PEG).
- Attend provincial professional development courses.
- Identify which of your engagements will fall under CSRS 4200.
- Discuss CSRS 4200 with your clients – see [Client Briefing](#).

- Consider discussing CSRS 4200 with potential third parties in your network – see [Third Party Briefing](#).
- Raise awareness by training staff and partners on CSRS 4200 and consider open discussions within and across offices, where applicable, to ensure consistent application.
- Consider the implications for engagement planning, such as timing, resources, checklists, etc.
- Prepare amendments to engagement letters.

Develop a plan of action!

What additional resources are available to help me?

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

Compilation Engagements Guidance Task Force

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