

Background: Lenders' Views on a New Proposed Standard for Compilation Engagements

October 2018

The Canadian [Auditing and Assurance Standards Board](#) (AASB) sets standards for services engagements performed by professional accountants in public practice, such as audit, review and compilation engagements. The AASB has recently issued an [Exposure Draft](#) proposing significant changes to its standard on compilation engagements.

If you are a loan officer who uses compiled financial information when granting loans or extending credit to small and mid-sized companies, this Exposure Draft will be of interest to you!

This survey seeks your input on aspects of the Exposure Draft that include a new Compilation Engagement Report to replace the Notice to Reader and a new requirement to include a note in the financial information that discloses the basis of accounting.

Please read this background paper and then complete this short [survey](#) before November 21, 2018.

Please be assured that your individual survey responses will not be released publicly. The AASB's primary purpose in conducting this survey is to use the aggregated results to help determine what revisions, if any, to make to the proposed standard on compilation engagements before it is finalized. The new standard on compilation engagements is expected to be effective in the second half of 2020.

If you have any questions, please contact:

Svetlana Berger, CPA, CA, MAcc
Principal
Auditing and Assurance Standards
sberger@asbcanada.ca
Tel.: 416 204.3231

For more information about this project, visit the [Compilation Engagements project](#) webpage.

Background to the Survey

Why we are seeking your input now

A compilation engagement is performed by a professional accountant in public practice to assist management with the preparation of the company's financial information. Small and mid-sized companies often provide their compiled financial information, with a Notice to Reader communication attached, to banks and other lenders.

Based on research with lenders and other consultations, we are proposing significant changes to the current standard on compilation engagements. We are requesting input from you because you are a key stakeholder, directly affected by these engagements.

What we learned from you so far

In 2012, we conducted important research on lenders' perceptions about financial information compiled by a professional accountant in public practice and provided by an entity to its lenders. Based on 115 survey responses, we learned that:

- lenders incorrectly perceive that practitioners perform some assurance type procedures to verify or corroborate the financial information provided by the client; and
- lenders do not know how balance sheet items have been recorded (for example, whether inventory is accounted for at cost or net realizable value) or whether accruals have been made because there is no disclosure of the basis of accounting in the financial information.

We recognize that:

- the limited communication in the Notice to Reader could be a reason for a gap between lenders' perceptions of the extent of work performed by accountants and what is required by the current standard on compilation engagements; and
- a lack of disclosure of the basis of accounting applied in the preparation of compiled financial information could be a reason readers found it difficult to understand the information.

Purpose of this survey

Key questions we are hoping to answer by this survey include:

- (1) Will an improved professional accountant's communication attached to compiled financial information help you better understand the nature and limitations of a compilation engagement?

- (2) Will a note attached to the financial information that describes the basis of accounting applied to compile the financial information help you better understand the basis of preparation of the information?

What is being proposed

A. Improved communication attached to the compiled financial information

We are proposing a new compilation engagement report that includes additional information not in the current Notice to Reader. Information such as management responsibilities, practitioner responsibilities and an expanded explanation of the limitations of the compiled financial information is intended to improve users' understanding of a compilation engagement.

The following illustration of the new compilation engagement report is provided in the Exposure Draft:

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 financial information, [and 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.

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 and presentation of the financial information of the entity.

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 practitioner's report]

[Practitioner's address]

B. Improved transparency about the basis of accounting applied in the preparation of the financial information

We are proposing a requirement that compiled financial information include a note that describes the basis of accounting applied in the preparation of such information. The description of the basis of accounting will depend on the circumstances of the engagement.

The following illustration of a possible note disclosure is provided in the Exposure Draft:

Note X – Basis of Accounting:

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

- accounts payable and accrued liabilities;
- accounts receivable less an allowance for doubtful accounts;
- inventory accounted for on [insert the basis of cost/net realizable value] basis;
- current income taxes payable as at the reporting date; and
- capital assets recorded at historical cost and amortized on a systematic basis.

The current communication

For information purposes, the current communication attached to compiled financial information is as follows:

NOTICE TO READER

On the basis of information provided by management (or the proprietor), I have compiled the balance sheet of Client Limited as at, 20X1 and the statements of income, retained earnings and cash flows for the (period) then ended.

I have not performed an audit or a review engagement in respect of these financial statements and, accordingly, I express no assurance thereon.

Readers are cautioned that these statements may not be appropriate for their purposes.

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]