



Exposure Draft

Proposed Other Canadian Standard – Related Services

Compilation Engagements

September 2018

**COMMENTS TO THE AASB MUST BE RECEIVED BY
November 30, 2018**

An online [response form](#), linked to this document, has been provided to assist you in submitting your comments to the AASB. Alternatively, you may send a comment letter via email (in a Word file) to:

info@asbcanada.ca addressed to:

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This Exposure Draft reflects proposals made by the Auditing and Assurance Standards Board (AASB) that it intends to include in the final standard, subject to deliberating comments received.

Individuals and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. All comments received by the AASB will be available on the website shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

Highlights

The Auditing and Assurance Standards Board (AASB) proposes, subject to comments received on exposure, to issue a new Canadian Standard on Related Services (CSRS) 4200, *Compilation Engagements*. This standard would replace:

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

Why change is needed

Section 9200 was first issued in 1987 and has not been significantly revised since then. Starting in 2011, the AASB conducted extensive consultations with representatives of the provincial accounting bodies, practitioners and lenders to understand better how compilation engagements are performed today and the issues identified by stakeholders.

These consultations identified the following key public interest issues:

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

The AASB has concluded that Section 9200 is outdated and in need of replacement to:

- better assist practitioners in performing compilation engagements in the current environment; and
- more clearly communicate to users the responsibilities of management and the practitioner, and the nature and scope of a compilation engagement.

The AASB recognizes that compilation engagements have unique characteristics, for example:

- they are performed by a variety of practitioners, ranging from sole practitioners to practitioners who are part of large public accounting firms;
- they are performed for a wide-range of entities; and
- the relationship between the practitioner and the entity is different than with other engagements since the practitioner is assisting management with the preparation of the financial information.

To reflect this diversity, the AASB formed the Compilation Engagement Task Force in early 2015 to assist in revising Section 9200. The Task Force consists of six practitioners from small, medium and large public accounting firms who have extensive experience performing compilation engagements. The Task Force also includes two observers from the provincial accounting bodies.

In 2016 and 2017, the Task Force undertook outreach activities, such as roundtable discussions and an online survey, to seek stakeholders' views on various matters relevant to the development of a new standard on compilation engagements.

The Task Force also considered work done in this area by other standard-setting bodies, such as the International Auditing and Assurance Standards Board (IAASB) and the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. These standard-setting bodies have each recently issued a revised standard on compilation engagements.

To read more about the work done to date on this project, visit the [project page](#).

Main features of the Exposure Draft

Addressing the public interest issues

Proposed CSRS 4200 includes the following key features to address the public interest issues:

- a scope that fits the current environment by addressing circumstances when the standard does not apply;
- engagement acceptance and continuance requirements that set boundaries as to when it is appropriate to accept an engagement to compile financial information that is intended for distribution by management to a third party;
- requirements that establish the minimum work effort and documentation;
- a compilation engagement report that describes the responsibilities of management and the practitioner, and the nature and scope of the engagement; and
- a requirement to disclose in a note to the compiled financial information the basis of accounting applied in the preparation of the financial information.

An overview of key differences between proposed CSRS 4200 and Section 9200 is provided in the Appendix.

The clarity format

The AASB has developed the proposed CSRS 4200 using a drafting convention called the “clarity format”. This drafting convention is already used in the majority of other standards in the CPA Canada Handbook – Assurance (Handbook).

The clarity format presents the proposed CSRS 4200 in five parts:

- Introduction: which explains the purpose and scope of the standard;
- Objective: which defines the context in which the requirements are set;
- Definitions: which include specific meaning of terms in the standard;
- Requirements: which define what the practitioner must comply with, using the words “the practitioner shall”; and
- Application and other Explanatory Material: cross-referenced to the requirements, and providing further explanation of and guidance for carrying out the requirements of the standard.

Quality control

The AASB has not yet formed a view as to whether CSRS 4200 should be subject to quality control requirements at the firm level and the engagement level.

Section 9200 does not require quality control for performance of compilation engagements. Canadian Standard on Quality Control (CSQC) 1¹ covers audits and reviews of financial statements, and other assurance engagements, but not related services engagements such as compilation engagements. The equivalent international quality control standard and some national standards outside Canada require firms to adhere to quality control standards for compilation engagements.

CSQC 1 is adopted from International Standard on Quality Control (ISQC) 1.² The IAASB is currently revising ISQC 1 and the changes are expected to be significant. The AASB is monitoring the development of this IAASB project and will consider the effect of the revisions in Canada, particularly whether compilation engagements, as well as other related services engagements, should be subject to quality control.

The IAASB is expected to approve an exposure draft of ISQC 1 in the latter part of 2018. The AASB will follow shortly thereafter with a Canadian exposure draft of CSQC 1.

Effective date

Subject to input the AASB receives from stakeholders, the AASB is proposing that CSRS 4200 be effective for compiled financial information for periods ending at least 12 months after the issuance of the final standard into the Handbook. The effective date is anticipated to be in the second half of the year 2020. Earlier application of CSRS 4200 would be permitted.

Consequential amendments

The Glossary of Terms (Glossary) in the Handbook currently applies to CSQC 1, the Canadian Auditing Standards and the Canadian Standards on Review Engagements. The AASB proposes to extend the Glossary to apply to CSRS 4200 and include terminology related to compilation engagements.

Comments requested

The AASB requests comments on any aspect of proposed CSRS 4200. Comments are most helpful when they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals should clearly explain the problem and include a suggested alternative, supported by specific reasoning.

The AASB seeks views on the following questions:

1. Do you agree with the scope of proposed CSRS 4200, including the exclusions? (Paragraphs 1-3 and A1-A5)
2. Do you agree that the considerations for engagement acceptance and continuance are appropriate? (Paragraphs 22-26 and A12-A22)
3. Do you agree that the work effort required by proposed CSRS 4200 will improve consistency of engagement performance and reflects good practice? (Paragraphs 27-33 and A23-A32)

¹ CSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*

² ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

4. Do you agree with the approach of requiring disclosure of the basis of accounting applied in the preparation of the financial information? (Paragraph 28, Appendix 1 and Appendix 2)
5. Do you agree that the content of the proposed Compilation Engagement Report appropriately describes the responsibilities of management and the practitioner, and the nature and scope of the engagement? (Paragraphs 36-37 and A34-A36, and Appendix 2)
6. Do you agree that the documentation requirements are appropriate? (Paragraph 38)
7. Are there any other matters that you think the AASB should be aware of as it considers finalizing the standard?
8. Do you believe that any of the requirements in the proposed CSRS 4200 could create initial implementation difficulties, despite the guidance provided? If so, please explain.

Questions 9 and 10 are relevant to third-party users of compiled financial information (such as lenders):

9. Do you believe that the inclusion of a note disclosing the basis of accounting applied in the preparation of the financial information will help you understand better the information provided? (Exhibit in Appendix 1)
10. Do you believe that the proposed Compilation Engagement Report is informative, clear and understandable? (Appendix 2)

The deadline for providing your comments to the AASB is November 30, 2018.

Appendix

Key differences between Section 9200 and proposed CSRS 4200

This Appendix provides an overview of the key differences between Section 9200 and proposed CSRS 4200.

This is not a complete list of differences. To understand fully the proposals, read the full text of each document.

Section 9200	Proposed CSRS 4200	Comparative Analysis
Scope		
Paragraphs 3-4 set out exclusions from the scope of the standard.	<p>Paragraph 2 sets out exclusions from the scope of the standard that are more extensive than those in Section 9200.</p> <p>Paragraph 3 indicates that in the circumstances when the standard does not apply, the practitioner may decide, or be requested, to issue a communication on the financial information. In that case, the requirements of the standard apply.</p>	<p>Section 9200 lacks clarity about whether certain services fall within its scope, which could be a reason for confusion and diversity in practice.</p> <p>Proposed CSRS 4200 introduces further exclusions from the scope to provide clarity on when the standard does and does not apply.</p>
Engagement Acceptance and Continuance		
Paragraph 12 sets out the conditions for accepting the engagement.	<p>Paragraphs 22-23 set out conditions for accepting or continuing the engagement that are not in Section 9200 on when management intends to distribute the compiled financial information to a third party.</p> <p>To accept or continue the engagement, paragraph 23 requires that a third party be in a position to request and obtain further information from the entity, or has agreed with management the basis of accounting to be applied. A third party who does not meet these criteria may be misled by financial information prepared in accordance with a basis of accounting that is other than a general purpose financial reporting framework.</p>	<p>Section 9200 does not reflect that compiled financial information is often distributed by management to a third party.</p> <p>Proposed 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>

Section 9200	Proposed CSRS 4200	Comparative Analysis
Performing the Engagement		
<p>Paragraph 5 describes the work effort as merely arranging information into the form of a financial statement and checking that the assembly of information is arithmetically correct.</p> <p>This work effort is 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>Paragraphs 27-33 set out performance requirements that are more extensive and robust than those in Section 9200.</p> <p>The term “misleading” describes the principles-based threshold that a practitioner should consider when performing a compilation engagement.</p>	<p>Section 9200 provides limited guidance on the required work effort, which could be a reason for variability in the extent of work performed.</p> <p>Proposed CSRS 4200 establishes the minimum work effort requirements to improve consistency of engagement performance and reflect good practice.</p>
Disclosing the Basis of Accounting		
<p>Section 9200 does not address disclosure of the basis of accounting.</p>	<p>Paragraph 28 requires that the compiled financial information include a note disclosing the basis of accounting applied in the preparation of the financial information.</p> <p>The Exhibit in Appendix 1 includes an example of a disclosed basis of accounting.</p>	<p>Section 9200 does not require disclosure of the basis of accounting applied in the preparation of compiled financial information, which could be a reason readers misunderstand the financial information.</p> <p>ASSURANCE AND RELATED SERVICES GUIDELINE AuG-5, Compilation Engagements – Financial Statement Disclosures, recognizes that the public accountant may conclude that the financial statements are misleading without disclosure of the basis on which they have been compiled.</p> <p>Proposed CSRS 4200 requires disclosure of the basis of accounting to help readers better understand the financial information.</p>

Section 9200	Proposed CSRS 4200	Comparative Analysis
Compilation Engagement Report		
<p>Section 9200 requires a communication to be attached to the compiled financial information entitled “Notice to Reader” (NTR).</p>	<p>Paragraph 36 and Appendix 2 introduce a new compilation engagement report that includes additional information not in the NTR. It includes descriptions of the responsibilities of management and the practitioner, and a better explanation of the limitations of the compiled financial information.</p>	<p>The limited communication in the NTR in Section 9200 could be a reason for a gap between lenders’ perception of the extent of work performed by practitioners and what is required by Section 9200.</p> <p>The new compilation engagement report in the proposed CSRS 4200 is intended to be more informative, clear and understandable to users.</p>
<p>Paragraph 25 requires that each page of the compiled financial information be labelled “Unaudited – See Notice to Reader”.</p>	<p>No comparable requirement exists in in proposed CSRS 4200.</p>	<p>Proposed CSRS 4200 does not require that each page of the compiled financial information be labelled.</p> <p>Such labelling is not considered necessary given that the proposed new compilation engagement report enhances the prominence and clarity of the limitations of the compiled financial information.</p>
Documentation		
<p>Section 9200 does not include requirements that address documentation.</p>	<p>Paragraph 38 sets out aspects of the engagement that the practitioner is required to document and maintain in the working paper files.</p>	<p>Section 9200 lacks guidance on the required documentation, which could be a reason for variability in the level of documentation.</p> <p>Proposed CSRS 4200 establishes the minimum documentation requirements to improve consistency among practitioners in the level of documentation.</p>

**Proposed Canadian Standard on Related Services (CSRS) 4200,
Compilation Engagements**

(Effective for compiled financial information for periods ending on or after [TBA])

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Introduction

Scope of this CSRS

1. This Canadian Standard on Related Services (CSRS) deals with:
 - (a) The practitioner's responsibilities when engaged to perform a compilation engagement on financial information, except when the financial information is a forecast or a projection, which is dealt with in AuG-16¹; and (Ref: Para. A1)
 - (b) The form and content of the compilation engagement report on the financial information.
2. This CSRS does not apply when the financial information prepared is limited to the following circumstances: (Ref: Para. A2)
 - (a) A practitioner acting in the capacity of trustee in bankruptcy, receiver or liquidator;
 - (b) A practitioner contracted to act as a member of the entity's finance department with controllership responsibilities;
 - (c) A practitioner engaged to perform a bookkeeping service; or (Ref: Para. A3)
 - (d) A practitioner preparing financial information to be used in:
 - (i) An audit engagement or a review engagement performed by another practitioner; or
 - (ii) Another service performed by the practitioner. (Ref: Para. A4)
3. In the circumstances described in paragraph 2, the practitioner may decide, or be requested, to issue a communication on such financial information. In that case, the requirements of this CSRS apply. (Ref: Para. A5)

The Compilation Engagement

4. The value of a compilation engagement to users of financial information results from the practitioner:
 - (a) Assisting management with the preparation of the financial information in accordance with a basis of accounting selected by management, including the preparation of a note in the financial information that discloses that basis of accounting;
 - (b) Complying with professional standards, including relevant ethical requirements; and
 - (c) Issuing a compilation engagement report that clearly communicates the nature and extent of the practitioner's involvement with the compiled financial information.
5. A compilation engagement is not an assurance engagement. The engagement does not require the practitioner to perform procedures to verify the accuracy or completeness of the information provided by management. Accordingly, the practitioner does not express an audit opinion or a review conclusion, or provide any form of assurance on the financial information.

Bases of Accounting

6. Financial information may be prepared and presented in accordance with different bases of accounting. Bases of accounting may be established by an authorized or recognized standards-setting organization, prescribed by law, regulation or contract, or developed by management.

¹ ASSURANCE AND RELATED SERVICES GUIDELINE, AuG-16, Compilation of a Financial Forecast or Projection

7. Examples of bases of accounting that are commonly encountered in compilation engagements are:
- A cash basis of accounting with accruals.
 - A cash receipts and disbursements basis of accounting.
 - A financial reporting provision of a contract or other form of agreement established by a creditor or a regulator.

Authority of this CSRS

8. This CSRS contains the objectives of the practitioner in following the CSRS, which provide the context in which the requirements of this CSRS are set, and are intended to assist the practitioner in understanding what needs to be accomplished in a compilation engagement.
9. This CSRS contains requirements, expressed using “shall”.
10. In addition, this CSRS contains introductory material, definitions, and application and other explanatory material that provide context relevant to a proper understanding of the CSRS.
11. The application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this CSRS that assists in the application of the requirements.

Effective Date

12. This CSRS is effective for compiled financial information for periods ending on or after [TBA].

Objectives

13. The practitioner’s objectives in a compilation engagement under this CSRS are to:
- (a) Assist management with the preparation of the financial information in accordance with a basis of accounting selected by management, based on information provided by management; and
 - (b) Communicate in the compilation engagement report as required by this CSRS.

Definitions

14. The Glossary of Terms in the CPA Canada Handbook – Assurance includes the terms defined in this CSRS, as well as descriptions of other terms used in this CSRS, to assist in consistent application and interpretation. For example, the terms “management” and “those charged with governance” used throughout this CSRS are as defined in the Glossary.
15. For the purposes of this CSRS, the following terms have the meanings attributed below:
- (a) Practitioner – A professional accountant in public practice who performs the compilation engagement. The term includes the engagement partner or other members of the engagement team, or, as applicable, the firm.
 - (b) Relevant ethical requirements – Ethical requirements to which the engagement team is subject when undertaking a compilation engagement, which comprise relevant ethical requirements set out in rules of professional conduct/code of ethics applicable to the practice of public accounting issued by the various professional accounting bodies.

- (c) Third party – The individual(s), organization(s) or group(s) other than management or those charged with governance that are expected to receive the compilation engagement report and the compiled financial information.
16. Hereinafter in this CSRS, references to “management” means “management and, where appropriate, those charged with governance”. (Ref: Para. A6)

Requirements

Conduct of a Compilation Engagement in Accordance with this CSRS

17. 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.
18. The practitioner shall comply with each requirement of this CSRS, unless a requirement is not relevant to the compilation engagement. A requirement is relevant to the compilation engagement when the circumstances addressed by the requirement exist.
19. The practitioner shall not represent compliance with this CSRS, unless the practitioner has complied with all requirements of this CSRS relevant to the compilation engagement.

Ethical Requirements

20. The practitioner shall comply with relevant ethical requirements. (Ref: Para. A7-A8)

Professional Judgment

21. The practitioner shall exercise professional judgment in performing a compilation engagement. (Ref: Para. A9-A11)

Engagement Acceptance and Continuance

22. The practitioner shall make inquiries of management regarding: (Ref: Para. A12-A14)
- (a) The basis of accounting to be applied in the preparation of the financial information; and
 - (b) The intended use and distribution of the compiled financial information, including whether the compiled financial information is intended to be distributed by management to a third party.

When the Compiled Financial Information Is Intended to Be Distributed to a Third Party

23. When the compiled financial information is intended to be distributed by management to a third party, the practitioner may accept or continue the engagement if the third party:
- (a) Is in a position to request and obtain further information from the entity; or (Ref: Para. A15)
 - (b) Has agreed with management the basis of accounting to be applied in the preparation of the financial information. (Ref: Para. A16)

If neither (a) nor (b) above are met, the practitioner shall not accept or continue the engagement, unless the basis of accounting to be applied in the preparation of the financial information is a general purpose financial reporting framework. (Ref: Para. A17)

Agreeing the Terms of the Engagement

24. Prior to performing the engagement, the practitioner shall agree the terms of engagement with management or those charged with governance, as appropriate. When the agreement is only with those charged with governance, the practitioner shall seek the written acknowledgment by management of the terms set out in paragraph 25(f)(iii). (Ref: Para A18).
25. The agreed terms of engagement shall be recorded in an engagement letter or other suitable form of written agreement, and shall include: (Ref: Para. A21)
 - (a) The basis of accounting to be applied in the preparation of the financial information, as identified under paragraph 22(a); (Ref: Para. A19)
 - (b) The intended use and distribution of the compiled financial information, including whether the compiled financial information is intended to be distributed by management to a third party, as identified under paragraph 22(b);
 - (c) When the compiled financial information is intended to be distributed by management to a third party and the basis of accounting to be applied in the preparation of the financial information is other than a general purpose financial reporting framework, the acknowledgment of management that the third party:
 - (i) Is in a position to request and obtain further information from the entity; or
 - (ii) Has agreed with management the basis of accounting to be applied in the preparation of the financial information;
 - (d) The objective and scope of the compilation engagement;
 - (e) The responsibility of the practitioner to comply with this CSRS, including relevant ethical requirements;
 - (f) The acknowledgment of management that:
 - (i) A compilation engagement is appropriate for the entity; (Ref: Para. A20)
 - (ii) It understands that a compilation engagement will not fulfill the entity's legal, regulatory or contractual provisions for an audit engagement or a review engagement; and (Ref: Para. A20)
 - (iii) It has the responsibilities for:
 - a. The compiled financial information;
 - b. Selecting the basis of accounting to be applied in the preparation of the financial information that is appropriate for the entity;
 - c. The accuracy and completeness of the information provided to the practitioner; and
 - d. Attaching the compilation engagement report when distributing or reproducing the compiled financial information; and
 - (g) The expected form and content of the compilation engagement report.

Recurring Engagements

26. On a recurring compilation engagement, the practitioner shall evaluate whether a change in circumstances requires the terms of engagement to be revised or whether there is a need to remind management of the existing terms of engagement. (Ref: Para. A22)

Performing the Engagement

The Practitioner's Knowledge

27. The practitioner shall obtain knowledge of the following matters, sufficient to be able to perform the compilation engagement: (Ref: Para. A23)
 - (a) The entity's business and operations; (Ref: Para. A24)
 - (b) The entity's accounting system and accounting records; and (Ref: Para. A25)
 - (c) The accounting policies selected under the basis of accounting to be applied in the preparation of the financial information.

Compiling the Financial Information

28. The practitioner shall compile the financial information, including a note in the financial information that discloses the basis of accounting applied in the preparation of the financial information. (Ref: Para. A26-A27)

Discussing with Management Significant Judgments for Which Assistance Has Been Provided

29. The practitioner shall discuss with management those significant judgments for which the practitioner has provided assistance in the course of compiling the financial information. (Ref: Para. A28)

Reading the Compiled Financial Information

30. After compiling the financial information, the practitioner shall read the compiled financial information in light of the practitioner's knowledge of the entity and the basis of accounting applied in the preparation of the financial information, and consider whether such compiled financial information does not appear to be misleading. (Ref: Para. A29)

Bringing Matters to the Attention of Management

31. If the practitioner becomes aware of matters that may cause the compiled financial information to appear to be misleading, the practitioner shall bring these matters to the attention of management and request additional or corrected information.

Withdrawing from the Engagement

32. If management does not provide additional or corrected information, as required in paragraph 31, or if the practitioner is otherwise unable to complete the engagement, the practitioner shall withdraw from the engagement and inform management of the reasons for withdrawing. (Ref: Para. A30-A31)

Acknowledgment of Responsibility for the Final Version of the Compiled Financial Information

33. The practitioner shall obtain an acknowledgment from management or those charged with governance, as appropriate, that they have taken responsibility for the final version of the compiled financial information. (Ref: Para. A32)

Subsequent Discovery of Facts

34. If, after the date the compiled financial information has been issued, a fact becomes known to the practitioner that, had it been known to the practitioner at the date of the compilation engagement report, may have caused the practitioner to believe that the compiled financial information is misleading, the practitioner shall:

- (a) Discuss the matter with management or those charged with governance, as appropriate;
 - (b) Determine whether the compiled financial information needs to be amended; and if so,
 - (c) Inquire how management intends to address the matter in the financial information.
35. If management amends the financial information and the practitioner provides a new compilation engagement report, the practitioner shall include in the report a paragraph referring to a note to the financial information that more extensively discusses the reason for the amendment of the previously issued financial information and to the earlier compilation engagement report provided by the practitioner. (Ref: Para. A33)

The Compilation Engagement Report

36. The compilation engagement report shall include the following: (Ref: Para. A8, A34-A36)
- (a) The title “Compilation Engagement Report”;
 - (b) An addressee – management or those charged with governance;
 - (c) A statement that, on the basis of information provided by management, the practitioner has compiled the financial information;
 - (d) Identification of the financial information that has been subject to the compilation engagement;
 - (e) The date of the financial information or the period to which it relates;
 - (f) A reference to the description of the basis of accounting applied in the preparation of the financial information;
 - (g) A description of the responsibilities of management in relation to the financial information;
 - (h) A description of the practitioner’s responsibilities to:
 - (i) Perform the engagement in accordance with this CSRS;
 - (ii) Comply with relevant ethical requirements; and
 - (iii) Assist management in the preparation and presentation of financial information of the entity;
 - (i) An explanation that:
 - (i) The practitioner did not perform an audit engagement or a review engagement, nor was required to perform procedures to verify the accuracy or completeness of the information provided by management; and
 - (ii) The practitioner does not express an audit opinion or a review conclusion, or provide any form of assurance on the financial information; (Ref: Para. A34)
 - (j) A caution to readers that the financial information may not be appropriate for their purposes; (Ref: Para. A35)
 - (k) The practitioner’s signature;
 - (l) The date of the practitioner’s report; and
 - (m) The practitioner’s address.

Date of the Practitioner's Report

37. The practitioner shall date the report on the date the practitioner has completed the compilation engagement in accordance with this CSRS.

Documentation

38. The practitioner shall prepare documentation that in the practitioner's judgment is sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand how the requirements of this CSRS were met, which, at a minimum, include the following:
- (a) The engagement letter or other suitable form of written agreement with management;
 - (b) A description of the entity's business, operations, accounting system, accounting records and accounting policies that will be selected under the basis of accounting to be applied in the preparation of the financial information;
 - (c) A reconciliation of the entity's accounting records to the compiled financial information, including any adjusting journal entries or other amendments to the financial information that the practitioner has agreed with management in the course of the engagement;
 - (d) Where applicable, the discussion with management regarding significant judgments for which the practitioner has provided assistance in the course of compiling the financial information;
 - (e) 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;
 - (f) A copy of the final version of the compiled financial information for which management or those charged with governance, as appropriate, have taken responsibility;
 - (g) A copy of the compilation engagement report; and
 - (h) Where applicable, the communication to management of the reason(s) for withdrawing from the engagement.

Application and Other Explanatory Material

Scope of this CSRS (Ref: Para. 1-3)

Examples of Financial Information (Ref: Para. 1(a))

- A1. Financial information that may be subject to a compilation engagement may include the following:
- A complete set of financial statements.
 - A part of a complete set of financial statements.
 - Schedules of financial information.
 - Pro forma financial information.

Scope Exclusions – Use of the Term “Limited” (Ref: Para. 2)

- A2. There may be circumstances under which a practitioner prepares financial information and that information has more than one use. For example, the financial information may be prepared to be used in a tax service performed by the practitioner (meeting the scope exclusion in paragraph 2(d)(ii)) and also to be distributed by management to a lender (not covered by the scope exclusions in

paragraph 2). In such a case, the requirements of this CSRS apply because the circumstances are not limited to those described in paragraph 2.

Bookkeeping Service (Ref: Para. 2(c))

A3. This CSRS does not apply to a bookkeeping service. 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 from which a practitioner can perform a compilation engagement. The practitioner may be engaged to undertake a bookkeeping service either solely or in addition to a compilation engagement.

Financial Information Prepared for Use in Another Service Performed by the Practitioner (Ref: Para. 2(d)(ii))

A4. This CSRS does not apply to financial information prepared for use in another service performed by the practitioner, for example:

- A service to assist in the preparation of tax or other forms prescribed by governmental and regulatory bodies or by others such as insurers.
- A business valuation service.
- A litigation support service.
- A personal financial planning service.

Deciding to Apply this CSRS When Not Required (Ref: Para. 3)

A5. Notwithstanding that this CSRS does not apply in the circumstances described in paragraph 2, the practitioner may decide to perform a compilation engagement when, in the practitioner's judgment, a compilation engagement report is necessary to avoid misunderstanding by users as to the nature and extent of the practitioner's involvement with that information.

Definitions (Ref: Para. 16)

A6. In small entities, there is often no separation of the management and governance roles. Those charged with governance may also be involved in managing the entity. In large entities, management is often responsible for the execution of the business or activities of the entity and reporting thereon. Those charged with governance have oversight of management.

Ethical Requirements (Ref: Para. 20)

A7. Relevant ethical requirements establish the fundamental principles of professional ethics, which include:

- Integrity;
- Objectivity;
- Professional competence and due care;
- Confidentiality; and
- Professional behaviour.

Independence (Ref: Para. 36)

A8. Relevant ethical requirements do not require the practitioner to be independent of the entity for a compilation engagement. However, when the practitioner may be seen as lacking independence, the relevant ethical requirements may require disclosure in the compilation engagement report.

Professional Judgment (Ref: Para. 21)

A9. Professional judgment involves the application of relevant training, knowledge and experience, within the context provided by this CSRS and relevant ethical requirements, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement.

A10. Areas where professional judgment may be needed include:

- Determining whether the engagement can be accepted or continued.
- Determining the extent of knowledge of the entity required to perform the compilation engagement. The practitioner's primary consideration is whether the knowledge obtained is sufficient to meet the practitioner's objectives for the engagement.
- Assisting management in making decisions about:
 - The basis of accounting to be applied in the preparation of the financial information, including selecting appropriate accounting policies; and
 - Developing accounting estimates.
- Determining what matters to bring to the attention of management.
- Reading the financial information and considering whether such compiled financial information does not appear to be misleading.

A11. The exercise of professional judgment in a compilation engagement is based on the facts and circumstances that are known to the practitioner up to the date of the compilation engagement report.

Engagement Acceptance and Continuance

Inquiries of Management Regarding the Basis of Accounting and Intended Use and Distribution (Ref: Para. 22)

A12. Prior to accepting the engagement, the practitioner is required to inquire of management regarding the basis of accounting to be applied in the preparation of the financial information. Management may not possess the necessary knowledge to identify the basis of accounting and may need the practitioner's assistance. While the practitioner may provide assistance, management retains responsibility for the compiled financial information and the selection of the basis of accounting, as set out in the terms of engagement (see paragraph 25(f)(iii) a.-b.).

A13. Factors that the practitioner may consider in assisting management in identifying the basis of accounting to be applied in the preparation of the 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.

A14. There may be circumstances when management is unable to inform the practitioner of the use and distribution of the compiled financial information. In such circumstances, it is appropriate for the practitioner to presume that the compiled financial information will be distributed to a third party and paragraph 23 applies.

When the Compiled Financial Information Is Intended to Be Distributed to a Third Party (Ref: Para. 23)

A15. In a compilation engagement, the financial information is often prepared in accordance with a basis of accounting that is other than a general purpose financial reporting framework, which may not be appropriate for distribution to a third party. Some third parties have agreed with management that a basis of accounting other than a general purpose financial reporting framework is sufficient for their information needs. However, other third parties may be misled by such financial information, unless they are in a position to request and obtain further information from the entity. Examples of such third parties include tax authorities and lenders.

A16. A third-party user may have agreed with management the basis of accounting to be applied in the preparation of the financial information, in writing or orally. When the agreement is in writing, the practitioner is not required to read the agreement between management and the third party. Management's acknowledgment that a compilation engagement is appropriate for the entity, as required by paragraph 25(f)(i), is sufficient to support the practitioner's acceptance of the compilation engagement.

A17. When the financial information is to be prepared in accordance with a general purpose financial reporting framework and is intended to be distributed by management to a third party, the practitioner may ask management, prior to accepting the compilation engagement, to consider whether an audit engagement or a review engagement would better address the needs of users.

Agreeing the Terms of the Engagement (Ref: Para. 24)

A18. The written agreement documenting the terms of engagement helps avoid misunderstanding regarding such matters as the scope of the engagement, the extent of the practitioner's and management's responsibilities, and the form and content of the report to be issued.

Identifying the Basis of Accounting to Be Applied in the Preparation of the Financial Information (Ref: Para. 25(a))

A19. When the basis of accounting to be applied in the preparation of the financial information is based on a general purpose financial reporting framework, but does not comply with all the requirements of that framework, it is inappropriate for the description of the basis of accounting in the compiled financial information to make reference to the general purpose financial reporting framework.

Management's Acknowledgment that a Compilation Engagement Is Appropriate for the Entity (Ref: Para. 25(f)(i)-(ii))

A20. There may be circumstances where law, regulation or contractual provisions with a third party require the entity's financial information to be subject to an audit engagement or a review engagement. In such case, management may have confirmed with the third party that it will accept financial information that is subject to a compilation engagement. When management has not obtained such confirmation, the practitioner may consider recommending that management do so. The practitioner is not required to perform procedures to verify that the third party provided such confirmation. Management's acknowledgment that a compilation engagement is appropriate for the entity, as required by paragraph 25(f)(i)-(ii), is sufficient.

Example of an Engagement Letter (Ref: Para. 25)

A21. Appendix 1 contains an example of a compilation engagement letter.

Recurring Engagements (Ref: Para. 26)

A22. The practitioner may decide not to send a new engagement letter or other suitable form of written agreement each period. However, the following factors may indicate that it is appropriate to revise the terms of the compilation engagement, or to remind management of the existing terms of the 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 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.
- A change in the basis of accounting to be applied in the preparation of the financial information.
- An expected change in users of the financial information.

Performing the Engagement

The Practitioner's Knowledge (Ref: Para. 27)

A23. Obtaining the knowledge required by paragraph 27 is an ongoing process that occurs throughout the performance of the compilation engagement. In a continuing client relationship, such knowledge includes that obtained from prior engagements performed by the practitioner in relation to the entity's financial information. The practitioner's knowledge may be obtained through:

- (a) Discussion with management or others within the entity who in the practitioner's judgment may have information that is likely to assist the practitioner in the preparation of financial information;
- (b) Where applicable, performing other engagements undertaken for the entity (for example, taxation services); and
- (c) Experience gained with the entity's industry.

A24. In obtaining knowledge of the entity's business and operations, the practitioner may consider:

- (a) The nature of the entity's assets, liabilities, revenues and expenses; and
- (b) The size and complexity of the entity and its operations.

A25. In obtaining knowledge of the entity's accounting system and accounting records, the practitioner may consider:

- (a) How transactions are recorded, classified and summarized in the entity's financial information in order to determine:

- (i) The nature and extent of accounting adjustments that might need to be made in order for the financial information to be prepared in accordance with the basis of accounting selected by management; and
 - (ii) Whether the information provided is not otherwise misleading; and
- (b) The types of matters that required accounting adjustments to the entity's financial information in prior periods.

Compiling the Financial Information (Ref: Para. 28)

A26. The practitioner's involvement in compiling the financial information will vary depending on the circumstances of the engagement. In some cases, it will involve the practitioner receiving underlying accounting records, as well as documents, explanations or other information from management and arranging it in the form of financial information in accordance with a basis of accounting selected by management. In other cases, management may have already prepared the financial information itself in a draft or preliminary form. However, in every case, compiling the financial information will involve the practitioner assisting management in the preparation of the entity's financial information in accordance with the basis of accounting selected by management.

A27. During the course of the engagement, the practitioner may become aware of a change in the basis of accounting to be applied in the preparation of the financial information, or an expected change in users of the financial information. In such cases, the practitioner may consider the need to revise the terms of engagement.

Discussing with Management Significant Judgments for Which Assistance Has Been Provided (Ref: Para. 29)

A28. In some engagements, the practitioner assists management with significant judgments, such as making an accounting estimate or selecting an accounting policy. When the practitioner provides assistance with significant judgments, discussion with management is needed so that management understands the impact of the significant judgments on the financial information, and accepts responsibility for those judgments.

Reading the Compiled Financial Information (Ref: Para. 30)

A29. In reading the compiled financial information, the practitioner may become aware that such information appears to be misleading. Relevant ethical requirements require the practitioner to not associate with information that the practitioner knows, or should know, is false or misleading.

Withdrawing from the Engagement (Ref: Para. 32)

A30. The practitioner may be unable to complete the engagement if, for example:

- (a) Management does not provide the practitioner with the records, documents, explanations or other information needed to compile the financial information;
- (b) A correction is necessary to the financial information and management refuses to allow the practitioner to make the correction; or
- (c) The practitioner becomes aware of information that was not known at the time the engagement was accepted that, had it been known, the practitioner would not have accepted the engagement.

A31. If withdrawing from the engagement is not possible under relevant ethical requirements, the practitioner may consider it appropriate to seek advice about the professional and legal responsibilities applicable in the circumstances.

Acknowledgment of Responsibility for the Final Version of the Compiled Financial Information (Ref: Para. 33)

A32. Acknowledgment from management or those charged with governance, as appropriate, that they have 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 (for example, in paper form, or by electronic or other medium).
- An oral acknowledgment, documented by the practitioner in the working paper file.

Subsequent Discovery of Facts (Ref: Para. 35)

A33. If management amends the compiled financial information subsequent to the date the compiled financial information is issued, the practitioner may advise management to:

- (a) Inform users in receipt of the previously issued compiled financial information, together with the practitioner's compilation engagement report, that the financial information has been amended; and
- (b) Provide users with the amended compiled financial information, together with the new compilation engagement report.

The Compilation Engagement Report (Ref: Para. 36-37)

A34. An important purpose of the compilation engagement report is to clearly communicate the nature of the engagement, and the practitioner's role and responsibility in the engagement. The compilation engagement report is not a vehicle to express an opinion or a conclusion on the financial information in any form.

A35. It is appropriate for the practitioner to compile financial information for management purposes since management is aware of the possible limitations of the financial information. It is management, not the practitioner, that determines the distribution of the financial information and, accordingly, it is necessary that a caution to users be included in the report to inform others who may use the financial information that such information may not be appropriate for their purposes.

A36. Appendix 2 contains an illustration of a compilation engagement report, incorporating the elements set forth in paragraph 36.

Appendix 1

(Ref: Para. A21)

Example of a Compilation Engagement Letter¹

The following is an example of an engagement letter for a compilation engagement that illustrates the relevant requirements and guidance contained in this CSRS. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this CSRS. It will need to be adapted according to the requirements and circumstances of individual compilation engagements.

This engagement letter illustrates the following circumstances:

- The financial information is to be compiled for use by management of ABC Company and is intended for distribution by management to a third party, being the bank of ABC Company.
- The third party is in a position to request and obtain further information from the entity.
- The compiled financial statements will comprise only the balance sheet of the company as at December 31, 20X1, and the income statement and retained earnings for the year then ended, without explanatory notes, other than a note describing the basis of accounting applied in the preparation of the financial information.

To the appropriate representative of management or those charged with governance of ABC Company:²

[The objective and scope of the compilation engagement]

You³ have requested that, on the basis of information that you will provide, we assist you in the preparation of the financial information for ABC Company, which comprises the balance sheet 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 to be applied in the preparation of the financial information.

The basis of accounting to be applied in the preparation of the financial information is [insert a description⁴]. *[The Exhibit shows a possible disclosed basis of accounting.]*

This financial information will include a note describing the basis of accounting as set out in this engagement letter.

The financial information is to be compiled for use by management of ABC Company and is intended for distribution by management to a third party, being the bank of ABC Company.

We are pleased to confirm our acceptance and our understanding of this compilation engagement by means of this letter.

¹ Throughout this example, the words in square brackets indicate where the example would be customized.

² The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons (see paragraph 24).

³ Throughout this letter, references to “you”, “we”, “us”, “management”, “those charged with governance” and “practitioner” would be used or amended as appropriate in the circumstances.

⁴ The description of the basis of accounting to be applied in the preparation of the financial information will depend on the specific circumstances of the engagement.

[The practitioner's responsibilities]

We will perform the compilation engagement in accordance with the Canadian Standard on Related Services (CSRS) 4200, *Compilation Engagements*, which requires us to comply with relevant ethical requirements.

A compilation engagement involves us assisting you in the preparation of financial information. Since a compilation engagement is not an assurance engagement, we are not required to perform procedures to verify the accuracy or completeness of the information you provide to us for the compilation engagement. Accordingly, we will not express an audit opinion or a review conclusion, or provide any form of assurance on whether the financial information is prepared in accordance with the basis of accounting you have specified, as described above.

[Management's responsibilities]

The compilation engagement is performed on the basis that you acknowledge that:

- (a) The third party to whom the compiled financial information is intended to be distributed are in a position to request and obtain further information from the entity;
- (b) A compilation engagement is appropriate for the entity; and
- (c) You understand that a compilation engagement will not fulfill the entity's legal, regulatory or contractual provisions for an audit engagement or a review engagement.

Further, you acknowledge that you are responsible for:

- (a) The compiled financial information;
- (b) Selecting the basis of accounting to be applied in the preparation of the financial information that is appropriate for the entity;
- (c) The accuracy and completeness of the information provided to us; and
- (d) Attaching the compilation engagement report when distributing or reproducing the compiled financial information.

[Other relevant information]

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

[Insert appropriate reference to the expected form and content of the practitioner's report]

If you have any questions about the contents of this letter, please raise them with us. Please sign and return the attached copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for the compilation engagement.

XYZ & Co. Chartered Professional Accountants

Acknowledged and agreed on behalf of the management of ABC Company by

[Management's signature]

[Name and Title]

[Date]

Exhibit – Disclosed Basis of Accounting

The following exhibit shows a possible description of a cash basis of accounting with selected accruals and minimum disclosure for inclusion in a note to the financial information.

The basis of accounting to be applied in the preparation of the financial information is on 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.

Illustration of a Compilation Engagement Report¹

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]

¹ Throughout this illustration, the words in square brackets indicate where the example would be customized.

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