

# Compilation engagements and the adoption of CSRS 4200

October 2021

## An overview of the changes to compilation standards in Canada

### WHY THE CHANGE?

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

### KEY CHANGES UNDER THE NEW STANDARD INCLUDE:



A new compilation engagement report that describes the responsibilities of management and the practitioner and the nature and scope of the engagement; and



A requirement to include a note that describes the basis of accounting applied in the preparation of the financial information.

Consistent with the existing standard, Section 9200, the practitioner does not provide any assurance on the compiled financial information. The practitioner's role is to assist management in the preparation of the compiled financial information in accordance with the requirements of the new standard. Management is responsible for the compiled financial information, including the completeness and accuracy of the underlying information used to compile the financial information. The practitioner is not required to verify the completeness and accuracy of such information. As a result, the compiled financial information may not be appropriate for certain third-party users.

### EFFECTIVE DATE

CSRS 4200, Compilation Engagements, is effective for compiled financial information **for periods ending on or after December 14, 2021**, with early adoption permitted.

### THIRD-PARTY USERS AND THE BASIS OF ACCOUNTING

The standard distinguishes between third-party users who can obtain additional information from the entity and those who cannot obtain such information. If the compiled financial information is to be used by third-party users, then Management must acknowledge to the Practitioner that the third-party user can obtain additional information from the entity. If the third-party user cannot obtain additional information, then management must acknowledge that the user has agreed with Management on the basis of accounting to be applied in the preparation of the compiled financial information.

Certain users will be able to request and obtain additional information under lending agreements or other contractual arrangements. Where this ability does not exist, having the third-party agree with the basis of accounting is intended to give third-party users the ability to request that the compiled financial be prepared in a manner that meets their needs.

If users require the compiled financial information to be prepared in accordance with a general purpose framework, such as Accounting Standards for Private Enterprises [ASPE], then a compilation engagement may not be appropriate in the circumstances. It would be rare for compiled financial information to be prepared in accordance with a general purpose framework. Management should assess whether an audit or review engagement would better address their needs.



The basis of accounting applied in the preparation of the compiled financial information will be specific to the particular facts and circumstances of the entity. Common examples of bases of accounting for 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 with a third-party, such as a lender, regulator, or minority shareholder.

The following is one possible example of the description of the basis of accounting that would appear in a note to the compiled financial information:

#### **INVESTMENT COMPANY**

The basis of accounting applied in the preparation of the balance sheet of Company ABC as at December 31, 20X1, and the income statement for the year then ended, reflects cash transactions with the addition of the following:

- 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.

#### **A NEW ENGAGEMENT LETTER AND NEW RESPONSIBILITIES**

Given the changes to the standards, a new engagement letter will be required. The engagement letter will include the objective and scope of the compilation engagement, the intended use of the financial information, the responsibilities of the Practitioner, and the responsibilities and Acknowledgements of Management or Those Charged with Governance.

Under the new standard, Practitioners are required to obtain knowledge of the entity's business and operations, its accounting systems and records and the basis of accounting to be applied and the accounting policies used in the preparation of the compiled information.

Under CSRS 4200, Management is responsible for the compiled financial information, including any significant judgements made in the preparation of the compiled financial information. If the Practitioner assists Management with such significant judgments, the Practitioner must ensure that Management understands the impact of the significant judgments on the compiled financial information and can accept responsibility for them.

Management is also responsible for selecting the basis of accounting that is appropriate for the intended use, and the accuracy and completeness of the information provided to the Practitioner, and for attaching the compilation engagement report when distributing or reproducing the compiled financial information.

The Practitioner's responsibilities do not extend to the distribution of the compiled financial information so Management is required to acknowledge that the compiled financial information should not be used by third parties other than those who are in a position to request or obtain further information from the entity or have agreed with management the basis of accounting applied in the preparation of the compiled financial information.

## THE NEW COMPILATION ENGAGEMENT REPORT

The new compilation report addresses some of the confusion that existed under the previous standard regarding the responsibilities of the parties and the limitations of the compiled financial information. The sample report presented below clearly outlines the responsibilities of Management and the Practitioner. It also clearly indicates that no procedures were undertaken to verify the accuracy or completeness of the compiled financial information provided by Management and that the Practitioner does not provide any form of assurance on the compiled financial information.

### COMPILATION ENGAGEMENT REPORT

#### To Management of Company ABC

On the basis of information provided by management, we have compiled the balance sheet of Company ABC 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").

Reference to note that describes the basis of accounting used to prepare the compiled 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

Responsibilities of Management and the Practitioner

**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.

Describes limitations of the compiled financial information, including the fact that no assurance is provided

**Readers are cautioned** that the financial information may not be appropriate for their purposes.

[Practitioner's signature]

[Date of report]

[Practitioner's address]

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