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RICHTER

THE CFO SERIES

NEW REQUIREMENTS FOR COMPILATION ENGAGEMENTS

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—
OUR EXPERTS
 NEW REQUIREMENTS FOR
 COMPILATION ENGAGEMENTS



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TABLE OF CONTENTS



Background



Scope



Engagement
Acceptance



Work Effort



Basis
of Accounting



Reporting

TABLE OF CONTENTS



Background



Scope



Engagement
Acceptance



Work Effort



Basis
of Accounting



Reporting

BACKGROUND



Canadian Standard on Related Services (“CSRS”) 4200, Compilation Engagements, will replace:

- Section 9200, Compilation Engagements
- AuG-5, Compilation Engagements – Financial Statement Disclosures



Proposed CSRS 4200 is Canadian-made

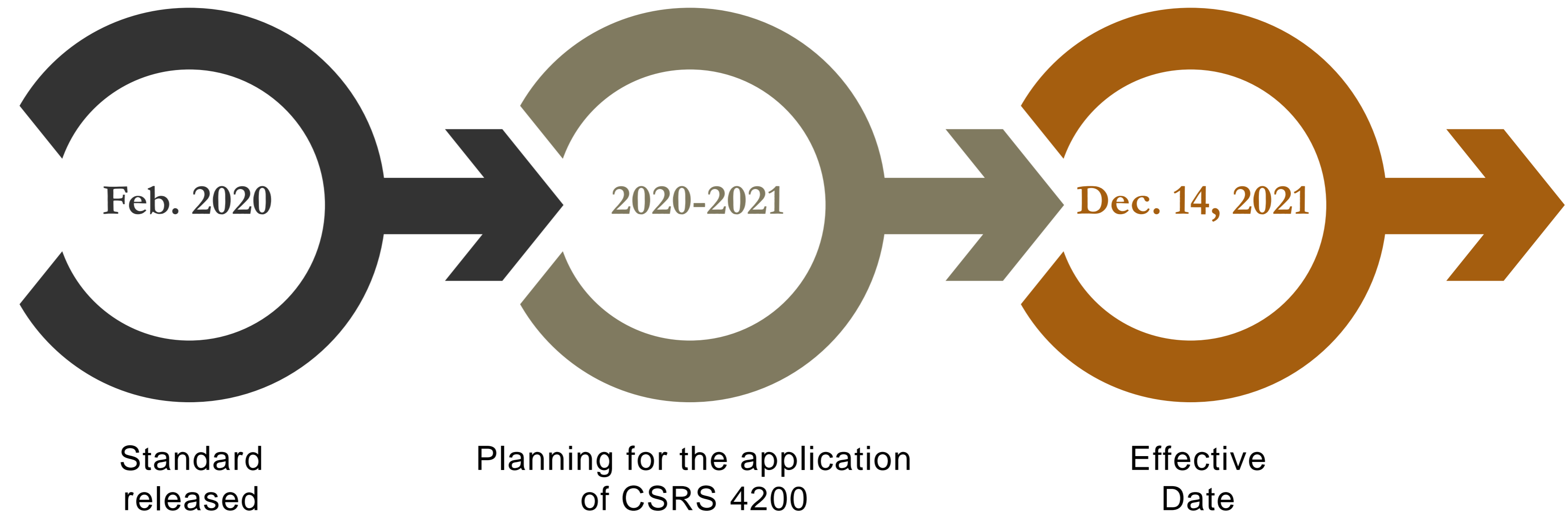


Proposed CSRS 4200 is drafted in the “clarify format”

BACKGROUND

EFFECTIVE DATES

EFFECTIVE DATE –
CSRS 4200,
COMPILATION
ENGAGEMENTS,
IS EFFECTIVE FOR
COMPILED FINANCIAL
INFORMATION
FOR PERIODS
ENDING ON OR
AFTER DEC. 14, 2021.
EARLIER
APPLICATION
OF CSRS 4200
IS PERMITTED.



BACKGROUND

WHAT INFORMATION ABOUT THE EXPOSURE DRAFT

Ethical Requirements		Communications, including discussions with Management**
Professional Judgment	Acceptance or Continuance <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. 	
	Perform the Engagement <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.

TABLE OF CONTENTS



Background



Scope



Engagement
Acceptance



Work Effort



Basis
of Accounting



Reporting

SCOPE

SCOPE

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

SCOPE

WHY DOES CSRS 4200 REFER TO FINANCIAL INFORMATION AND NOT FINANCIAL STATEMENTS?

01

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

02

Information subject to a compilation engagement may include:

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

(See CSRS 4200 Para. A1)

SCOPE

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)
 - Assistance in the preparation of forms prescribed by governmental and regulatory bodies or by others such as insurers.
 - Business valuation service.
 - Litigation support service.
 - Personal financial planning service.

SCOPE

WHY DOES CSRS 4200 REFER TO FINANCIAL INFORMATION AND NOT FINANCIAL STATEMENTS?



If a practitioner wants, or is requested by a client, to attach a communication to financial information excluded from scope...



... **then**... a practitioner would comply with the standard and issue a compilation engagement report.

TABLE OF CONTENTS



Background



Scope



Engagement
Acceptance



Work Effort



Basis
of Accounting



Reporting

ENGAGEMENT ACCEPTANCE SIGNIFICANT DIFFERENCES BETWEEN CSRS 4200 AND SECTION 9200

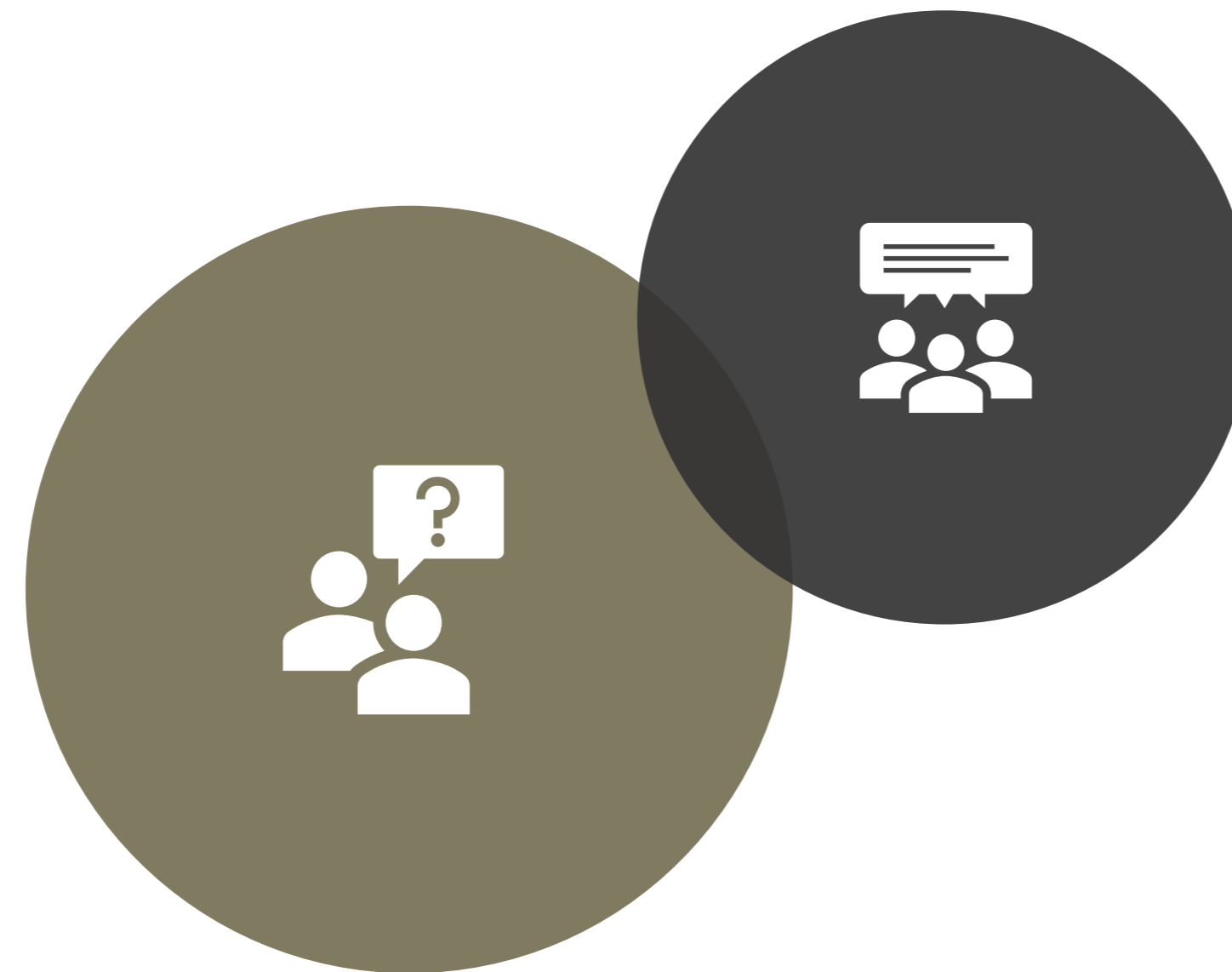
ENGAGEMENT
ACCEPTANCE AND
CONTINUANCE
WHEN THE
COMPILED
FINANCIAL
INFORMATION
IS INTENDED
TO BE USED BY
A THIRD PARTY

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

ENGAGEMENT ACCEPTANCE

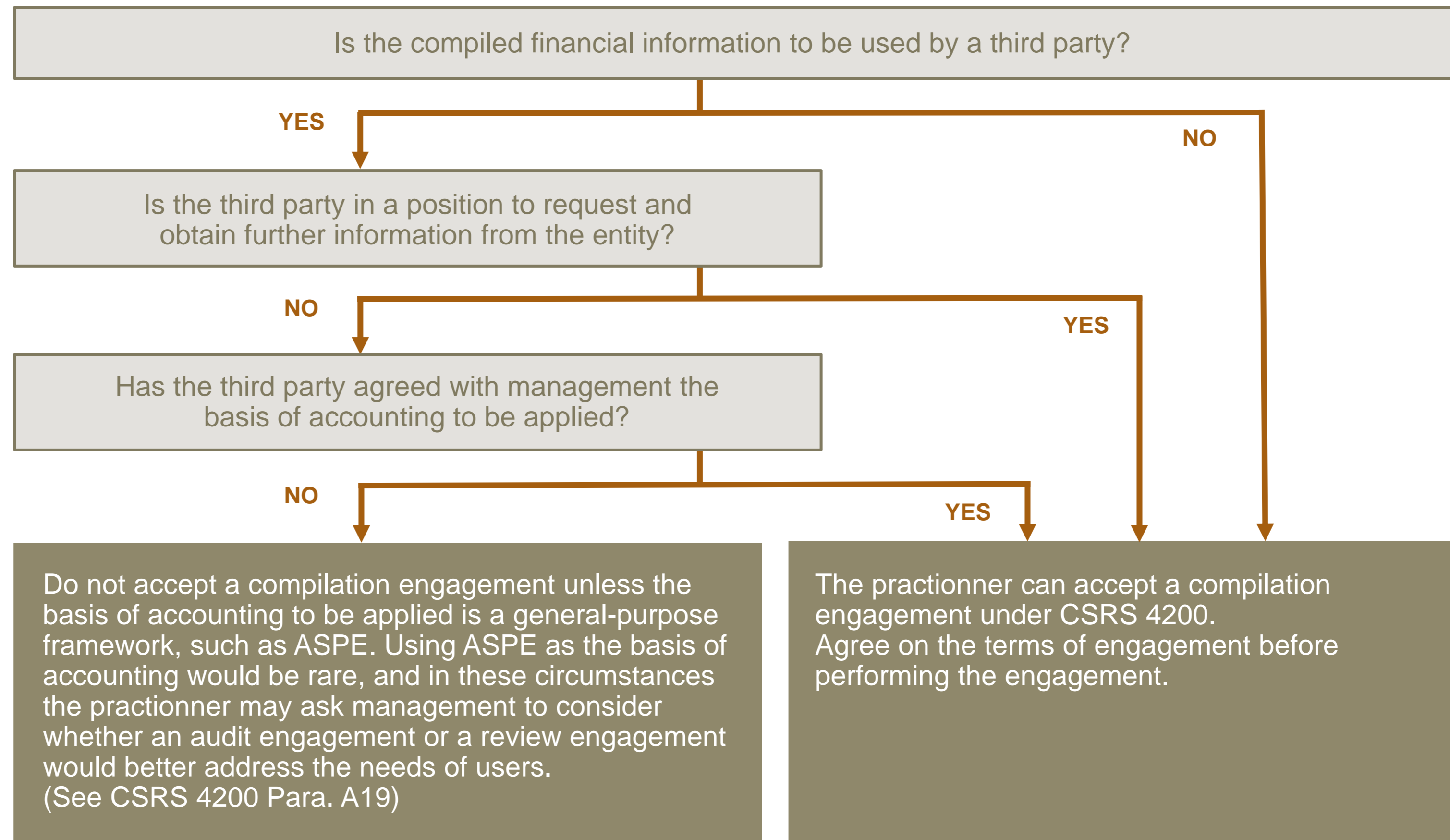
COMPILED FINANCIAL INFORMATION IS FOR MANAGEMENT'S PURPOSE

PRIOR TO
ACCEPTING OR
CONTINUING ANY
COMPILATION
ENGAGEMENT, THE
PRACTITIONER MUST:



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

ENGAGEMENT ACCEPTANCE DECISION TREE



ENGAGEMENT ACCEPTANCE

FINANCIAL INFORMATION IS INTENDED TO BE USED BY A THIRD PARTY

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

- Is in a position to request and obtain further information from the entity; or
- Has agreed with management on the basis of accounting to be applied in the preparation of the compiled financial information.
- A common third party would be a lender who is likely to be in a position to obtain further information through the lending agreement.

If neither of these conditions is met, the practitioner cannot accept or continue a compilation engagement unless the basis of accounting to be applied in preparing the compiled financial information is a general-purpose framework, e.g., ASPE.

It is a rare occurrence. In such case, the practitioner may ask your client to consider whether a review engagement or an audit engagement would better address the needs of their users.

TABLE OF CONTENTS



Background



Scope



Engagement
Acceptance



Work Effort



Basis
of Accounting



Reporting

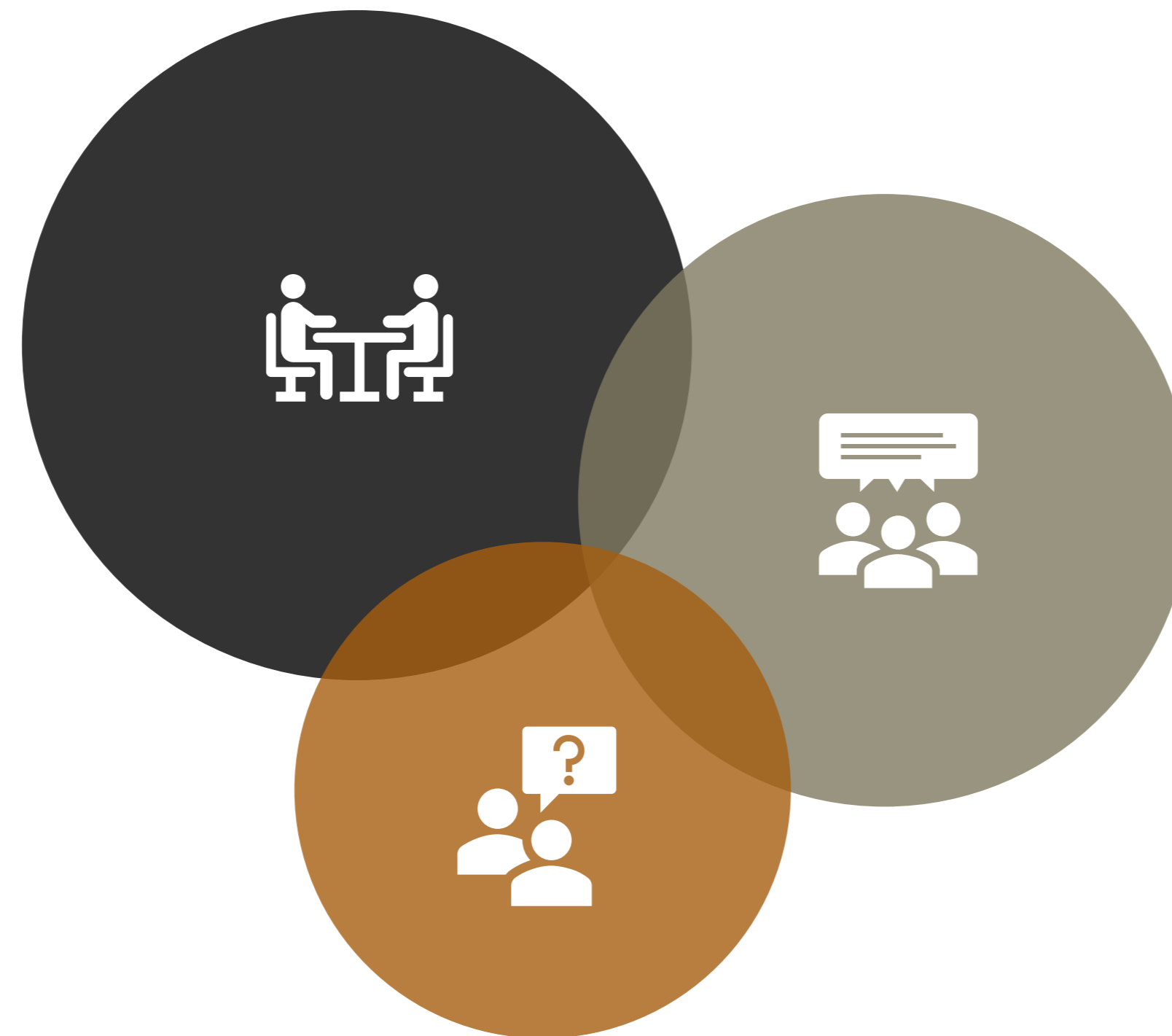
WORK EFFORT

PERFORMING THE ENGAGEMENT (“WORK EFFORT”)

SECTION 9200	CSRS 4200	IMPLICATION
<p>Section 9200 provided limited guidance on the required work effort, which may have led to the variability in the extent of work performed in practice.</p> <p>Section 9200 described the work effort as merely arranging information into the form of a financial statement and checking that the assembly of information is arithmetically correct. This work effort was framed around the practitioner’s responsibilities to not be associated with financial statements that he or she knows, or should know, are false or misleading.</p>	<p>The performance requirements of CSRS 4200 are more extensive and robust than those in Section 9200. The term “misleading” describes the principles-based threshold that you should consider when performing a compilation engagement.</p> <p>(See CSRS 4200 Paras. 27-33)</p>	<p>CSRS 4200 establishes the minimum work effort requirements. The new requirements will improve consistency of engagement performance and reflect good practice. Depending on the way engagements were completed under Section 9200, there may be a change in the work effort.</p>

WORK EFFORT

NEW ADDITIONAL REQUIREMENTS



A discussion of your business and operations, accounting system, and accounting records.



A discussion about significant judgments that the practitioner has assisted management within the preparation of the compiled financial information. An example of a significant judgment could include the allowance for doubtful accounts or the recognition and measurement of revenue.



Your need to answer any questions the practitioner may ask if they believe the compiled financial information appears misleading.

TABLE OF CONTENTS



Background



Scope



Engagement
Acceptance



Work Effort



**Basis
of Accounting**



Reporting

BASIS OF ACCOUNTING

DESCRIBING THE BASIS OF ACCOUNTING

SECTION 9200	CSRS 4200	IMPLICATION
<p>Section 9200 did not address or require a description of the basis of accounting.</p>	<p>CSRS 4200 requires that the compiled financial information include a note describing the basis of accounting applied in the preparation of the compiled financial information.</p> <p>(See CSRS 4200 Para. 28)</p>	<p>Attach a new note in the compiled financial information.</p>

BASIS OF ACCOUNTING

A BASIS OF ACCOUNTING MAY BE...



Established by an authorized or recognized standards-setting organization (e.g., ASPE, IFRS);



Prescribed by law, regulation, or contract (e.g., Tax basis); or



Developed by management (e.g., a modified cash basis). A basis of accounting developed by management is not ASPE (or ASNFPO). It would be rare that a basis of accounting applied in the preparation of compiled financial information under CSRS 4200 would be compliant with all aspects of ASPE or ASNFPO.

Presented in a basis of accounting note in the compiled financial information.

BASIS OF ACCOUNTING

EXAMPLES

Example #1: Real Estate Rental Company

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

- Rent receivable based on lease terms less an allowance for doubtful accounts.
- Revenue-producing property amortized in accordance with amounts allowable for income tax purposes.
- Accounts payable and accrued liabilities.
- Current income taxes payable as at the reporting date.
- Rental revenue recorded in accordance with the lease terms.

Example #2: Retail Company

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

- Inventory valued using the retail method.
- Property, plant and equipment amortized over their useful life.
- Accounts payable and accrued liabilities.
- Current income taxes payable as at the reporting date.

BASIS OF ACCOUNTING

EXAMPLES

Example #3: Professional Services Company

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

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

Example #4: Agriculture Company

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

- Accounts receivable.
- Livestock and crop inventory accounted at net realizable value.
- Property, plant and equipment amortized over their useful life.

BASIS OF ACCOUNTING

EXAMPLES

Example #5: Investment Company

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

- Amounts receivable.
- Investments recorded at cost.
- Rental property recorded at historical cost and amortized on the same basis as for income tax.
- Accounts payable and accrued liabilities.
- Current income taxes payable as at the reporting date.

TABLE OF CONTENTS



Background



Scope



Engagement
Acceptance



Work Effort



Basis
of Accounting



Reporting

REPORTING

COMMUNICATION

SECTION 9200	CSRS 4200	IMPLICATION
<p>Section 9200 requires a communication to be attached to the compiled financial information entitled “Notice to Reader.”</p>	<p>Attach a new communication entitled “Compilation Engagement Report.”</p> <p>It includes descriptions of the responsibilities of management and the practitioner, and an expanded explanation of the limitations of the compiled financial information.</p> <p>(See CSRS 4200 Para. 37-38)</p>	<p>Attach a new report; see Appendix B of this <i>Tool</i> for the new report with some of the key differences highlighted.</p>

REPORTING

SAMPLE COMPILATION ENGAGEMENT REPORT

COMPILATION ENGAGEMENT REPORT 1

To Management of ABC Company 2

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, if applicable, other explanatory information] (“financial information”). 3

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. 4

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.

← 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.

REPORTING

SAMPLE COMPILATION ENGAGEMENT REPORT (CONT'D)

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. 1

Accordingly, we do not express an audit opinion or a review conclusion, or provide any form of assurance on the financial information. 2

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

[Practitioner's signature]
 [Date of the report]
 [Practitioner's address] 3

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) acknowledgement of its responsibility for the final version of the compiled financial information.



CONCLUSION
AND DISCUSSION
QUESTIONS AND COMMENTS



COMING SOON AT RICHTER

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RICHTER

THANK YOU!