

**Path to Implementation:
CSRS 4200
Compilation Engagements**



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Overview

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CSRS 4200 Compilation Engagements

- Effective for compiled financial information for periods ending on or after December 14, 2021 (that is, December 2021 year ends)
- Earlier adoption permitted
- Replaces Section 9200 Compilation Engagements
- Deals with:
 - a) The practitioner's responsibilities
 - b) The form and content of the compilation engagement report

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Terminology

Financial Information versus Financial Statements

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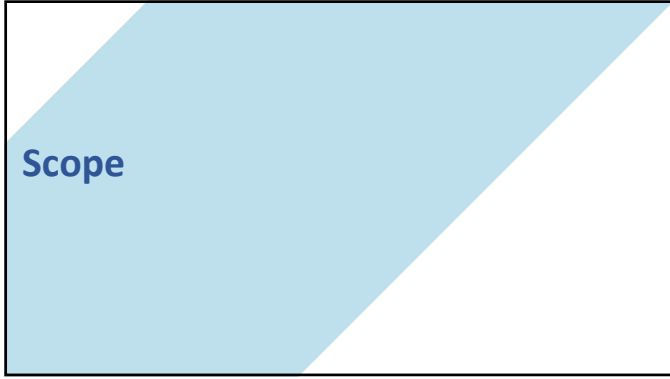
General Matters – Decisions Required

- What is the firm’s target implementation date?
- How will you communicate with clients?
 - When will you communicate?
- How will you communicate with third parties?
 - When will you communicate?

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CSRS 4200 Requirements

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Scope Exclusions

- The CSRS does not apply in certain circumstances
- If multiple services provided must meet ALL exceptions for scope exclusion
- The standard does not apply practitioners are:
 - a) Acting as a member of the entity's finance department
 - b) Performing bookkeeping services
 - c) Preparing FI for use solely in government prescribed tax forms
 - d) Preparing FI as part of another service

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Scope Exclusions – Internal

- Acting as a member of the entity's finance department
 - Making company decisions
- Preparing internal financial statements
 - No communication attached

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Scope Exclusions – Bookkeeping Service

- Providing bookkeeping services only:
 - The collection, classifying, summarizing and processing data to create underlying accounting records
 - Results in a general ledger and trial balance
- Preparing system-generated financial information
 - No communication attached

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Scope Exclusions – Tax Information

- Providing tax preparation services only:
 - Information prepared solely in government-prescribed tax forms
- Preparing information for inclusion in tax returns
 - No communication attached

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Scope Exclusions – Other

- Other certain activities:
 - Acting in the capacity of trustee, receiver, liquidator
 - Information subject to an audit engagement or review engagement by another practitioner
 - As part of another service such as:
 - Preparation of forms by regulatory bodies (example, insurers)
 - Business valuation
 - Litigation support
 - Personal financial planning

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Scope Exclusions

- If multiple services provided must meet ALL exceptions
- Can perform compilation engagement and issue report
 - At the request of management
 - When circumstances dictate

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Scope Exclusions – Decisions Required

- What is the process to clarify services provided to your clients? Where do scope exclusions exist?
- Documentation?

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Overall Requirements

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Overall Requirements – Compliance

- Understand the entire text of the CSRS
- Comply with all requirements
- Comply with relevant ethical requirements
- Set out in the Professional Code of Conduct
 - Integrity
 - Objectivity
 - Professional competence and due care
 - Confidentiality
 - Professional behaviour

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Overall Requirements – Independence

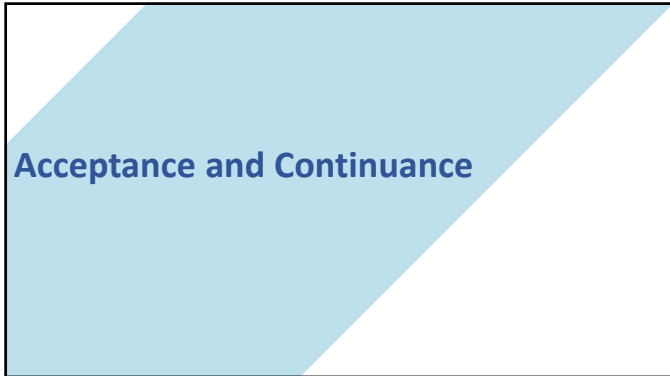
- Not required to be independent for a compilation engagement
- No substantive change in independence requirements
- Independence driven by Code of Professional Conduct (Rule 204)
 - Threat
 - Prohibition
- If not independent disclose in the compilation engagement report

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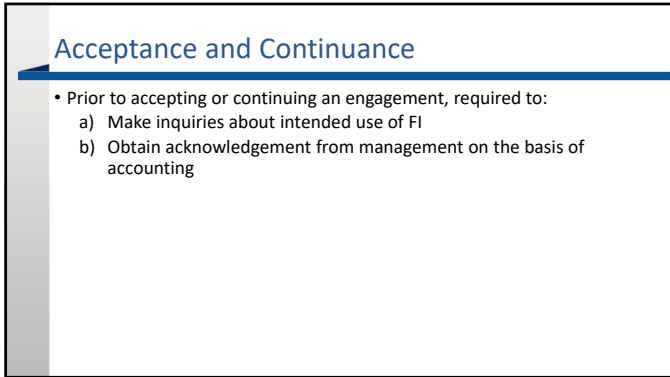
Overall Requirements – Decisions Required

- What is the process for identifying independence?
- Where independence matters exist, what is process to include disclosure in compilation report?
- Documentation?

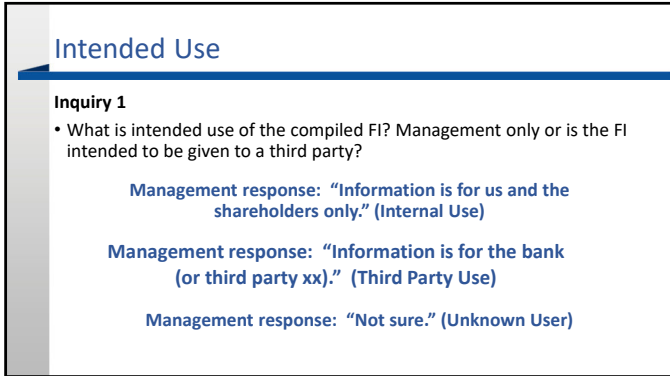
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Intended Use

- Examples of third parties:
 - Banker
 - Supplier
 - Customer
 - Purchases of the business
 - Party to dispute or litigation
 - Funder
 - Other?

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Intended Use – Internal

Scenario 1: Management use only

- Still under the standard
- Obtain acknowledgment about the basis of accounting to be applied
- Include in engagement letter:
 - Internal use only
 - Basis of accounting to be applied

CONCLUSION:

Perform the engagement in accordance with all the requirements of CSRS 4200

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Intended Use – Third Parties

Inquiry 2

- Is the third party who will use the financial information in a position to request and obtain further information from management?

Management response: "The bank (or third party xx) has access to further information." (With Access)

Management response: "Third party xx does not have access to further information." (Without Access)

Management response: "Not sure." (Unknown)

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Intended Use – Third Parties WITH Access

Scenario 2(a): Specific third party WITH access to further information

- Confirm with management
 - Third party in a position to request and obtain further information
- Not required to verify with third party
- Include in engagement letter:
 - FI to be used by third party who has access to further information
 - Basis of accounting to be applied

CONCLUSION:
 Perform the engagement in accordance with all the requirements of CSRS 4200

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Intended Use – Third Parties WITHOUT Access

Scenario 2(b): Specific third party WITHOUT access but agreed upon basis of accounting

- Confirm with management
 - Agreed upon basis of accounting with third party
- Not required to verify with third party
- Include in engagement letter:
 - FI used by third party with agreed upon basis of accounting
 - Basis of accounting to be applied

CONCLUSION:
 Perform the engagement in accordance with all the requirements of CSRS 4200

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Intended Use – Unknown

Scenario 2(c): Unknown user

- When management unable to inform the practitioner of the use of the financial information

CONCLUSION:

Option 1: Do not accept/continue engagement

Option 2: Accept/continue the engagement but use a general purpose framework in the preparation of the FI

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Intended Use – Unknown

Scenario 2(d): General third party (therefore no access nor agreed upon basis of accounting)

- Evaluate if sufficient information available to determine whether to accept/continue engagement

CONCLUSION:

“FI to be used for future borrowing purposes.”
 Similar to 2(a): Third party WITH access

“Not sure.”
 Similar to 2(c): Unknown user

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Engagement Letter

- Obtain an engagement letter prior to performing the engagement
- Tailor engagement letter to include specific inclusions for:
 - Basis of accounting
 - Intended use of financial statements
 - Acknowledgement of use by third parties who:
 - Are in a position to access to further information
 - OR
 - Agreed upon basis of accounting

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Engagement Letter

- No requirement to issue every year however required to evaluate whether a change/revision/reminder is required
- Considerations:
 - Any indication management misunderstands objective
 - Revised or special terms
 - Change in management
 - Change in ownership
 - Significant change in nature or size of entity
 - Change in legal, regulatory or contractual provisions affecting entity
 - Expected change in use of FI
- Document assessment

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Acceptance and Continuance – Decision Required

Intended Use

- What is process for determining intended use of the FI?
- Process to verify with management third parties have access to further information or agreed upon basis of accounting?
- Documentation?

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Acceptance and Continuance – Decisions Required

Engagement Letter

- What is process to update the firm's engagement letter template?
- When will the initial engagement letter be sent?
- How often will engagement letter be sent thereafter?

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Basis of Accounting

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Basis of Accounting

- FI prepared in accordance with a “basis of accounting”
- Purpose?
 - To assist users in understanding how the compiled FI is prepared

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Basis of Accounting

Inquiry 3

- What is the basis of accounting to be applied in the compiled FI?

Management response: “Cash basis with some accruals and estimates.”

Management response: “The basis is as outlined in the banking agreement.”

Management response: “No clue.”

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Basis of Accounting – Example

Services Company

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

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Basis of Accounting – Disclosure

- **“Typical” policies**
 - Revenue/receivables
 - Accounts payable and accrued liabilities
 - Property, plant and equipment
 - Inventory
 - Current income taxes

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Basis of Accounting – Disclosure

- **“Unique” policies**
 - WIP
 - Agricultural
 - Investments
 - Leases
 - Rental property
 - Significant estimates
 - Asset retirement obligations
 - Other?

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Basis of Accounting – Disclosure

- Consider client portfolio
 - Types of industries
- Develop template basis of accounting notes for each type
- Tailor to specific client circumstances

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Basis of Accounting – Disclosure

- Not allowed to say “in accordance with ASPE except for . . .”
- Can assist in determining however . . .
 - Management is responsible for final selection
- Include basis of accounting in engagement letter

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Basis of Accounting – Decisions Required

- How many template notes will be required based on client portfolio?
- What is process for drafting template basis of accounting notes?
- How will basis of accounting note be tailored to specific clients?
- Documentation?

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Performing the Engagement

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Performing the Engagement

- Obtain knowledge the entity’s business and operations through:
 - Discussion with management
 - Performing other engagements
 - Past experience

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Performing the Engagement

- Required to obtain knowledge of:
 - a) The entity’s accounting system and accounting records including:
 - Nature and extent of accounting adjustments
 - Types of matters requiring adjustments in prior periods
 - Whether the information provided is not otherwise misleading
 - b) The basis of accounting

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Knowledge of the Business – Operations

- Consider:
 - Nature of the entity’s assets, liabilities, revenues and expenses
 - The size and complexity of the entity and its operations
- Also consider:
 - Governance and ownership
 - Related parties
 - Industry and nature of operations
 - Entity’s products or services
 - Size (# employees)
 - Debt or financing arrangements
 - Significant changes from prior year

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Knowledge of the Business – Systems & Records

Consider:

- Software used
- Who inputs data and prepares accounting records
- Major cycles:
 - Revenue, receivables, receipts (customers, nature, sources)
 - Purchases, payables, payments (suppliers, payment, contracts)
 - Payroll (# employees, service provider/in-house)
- Other areas:
 - Reconciliations
 - Journal entries
 - Estimates

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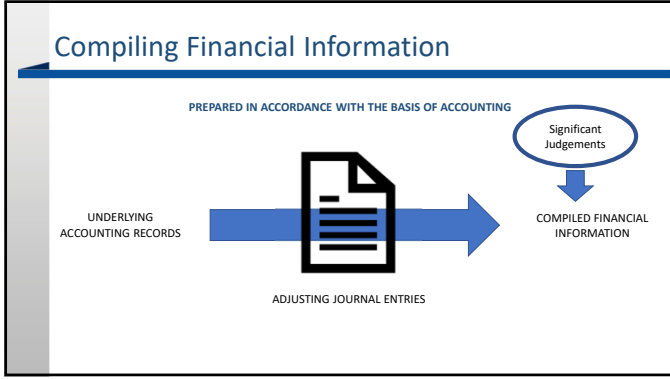
Performing the Engagement – Decisions Required

- What is approach to gathering knowledge of the business?
- Documentation?
- When will knowledge information be documented?
- How will staff be trained on documentation tools?

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**Compiling
Financial Information**

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- ### Compiling FI – Stand-back Requirement
- New requirement
 - Read the compiled FI in light of knowledge of the entity and basis of accounting
 - Consider whether such information is misleading
 - If believe misleading, bring these matters to the attention of management

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- ### Compiling FI – Other Considerations
- Comparative information
 - Standard does not require or prohibit inclusion of comparative information
 - Consider alternatives if change in basis of accounting
 - Retrospective restatement with description
 - No retrospective restatement only description
 - Nothing (assuming change does not make FI misleading)

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Compiling FI – Other Considerations

- Notes
 - Only note required is basis of accounting
 - Standard does not require or prohibit inclusion of notes
 - Include if consider useful or necessary

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Compiling FI – Other Considerations

- Compiled financial information
 - Standard does not require labeling each page as “unaudited”

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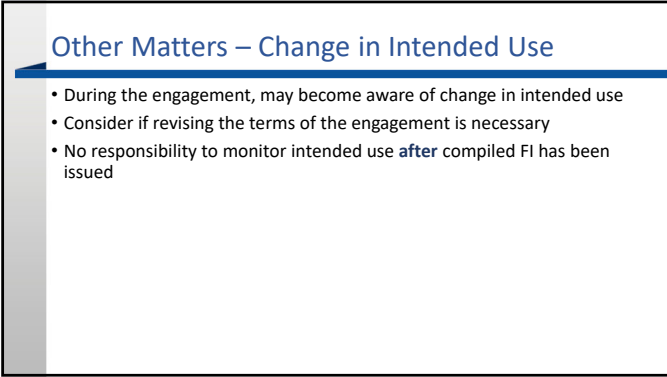
Compiling FI – Decisions Required

- What is the format of the compiled financial information?
- Are any updates to firm templates required?
- How to include the basis of accounting note?

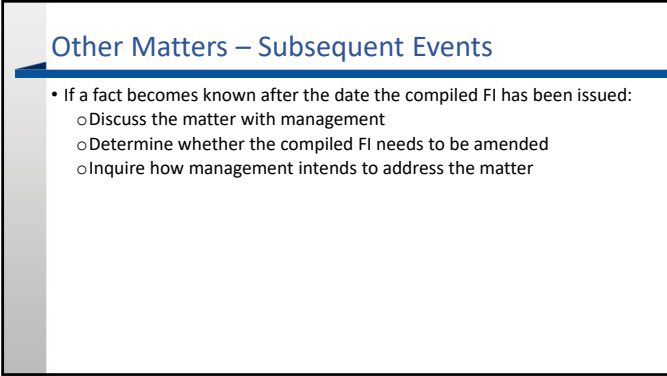
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Other Matters – Subsequent Events

- If compiled FI are amended and a new report issued:
 - Prepare the amended FI including a note describing the nature of the amendment
 - Refer to the note in the new compilation engagement report and to the earlier compilation engagement report
 - Advise management to:
 - Inform users that the compiled FI has been amended
 - Provide users with the amended report and FI

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Other Matters – Withdrawing

- Required to withdraw from an engagement in certain circumstances
- If occurs, consult

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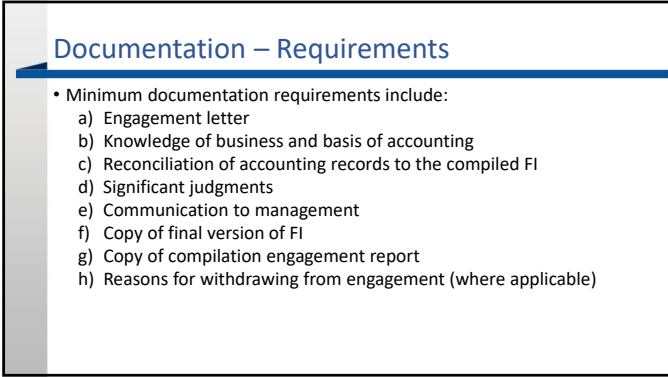
Other Matters – Decisions Required

- None

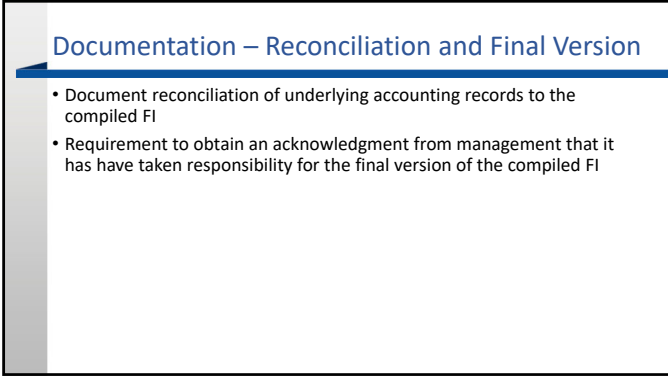
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Documentation – Final version of FI

- Requirement to obtain an acknowledgment from management that it has have taken responsibility for the final version of the compiled FI
- How?
 - Signature on the final version of the compiled FI
 - Written communication – paper, electronic
 - Oral acknowledgment documented by the practitioner

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Documentation – Decisions Required

- What is the process to determine engagement template file set up?
- How will the firm document knowledge of the business?
- How will the firm document management approval of FI?
- How will the firm meet other documentation requirements?

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**Compilation
Engagement Report**

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Compilation Engagement Report

- New compilation engagement report

Date the report on the date management approves the compiled FI

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Compilation Engagement Report

To Management of ABC Company

On the basis of information provided by management, we have compiled the balance sheet of ABC Company as at December 31, 20X1, the statement of income and retained earnings for the year then ended, and Note X, which describes the basis of accounting applied in the preparation of the compiled financial information [and, if applicable, other explanatory information] ("financial information").

Management is responsible for the accompanying financial information, including the accuracy and completeness of the underlying information used to compile it and the selection of the basis of accounting.

We performed this engagement in accordance with Canadian Standard on Related Services (CSRS) 4200, *Compilation Engagements*, which requires us to comply with relevant ethical requirements. Our responsibility is to assist management in the preparation of the financial information.

We did not perform an audit engagement or a review engagement, nor were we required to perform procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an audit opinion or a review conclusion, or provide any form of assurance on the financial information.

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

Practitioner's Signature
Date of report
Practitioner's Address

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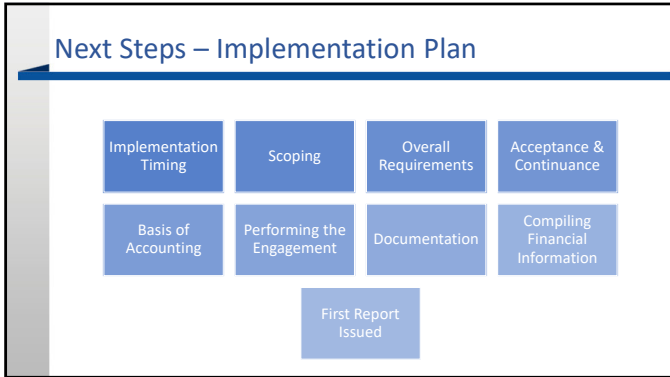
Compilation Engagement Report – Decisions Required

- How is the compilation engagement report updated into client template?
- Are any changes in workflow needed due to approval/dating requirement?

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Implementation

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- ### General Matters – Decisions Required
- What is the firm’s target implementation date?
 - Early adoption
 - Engagements ending on or after [DATE]
 - When effective
 - How will you communicate new standard requirements with clients? When?
 - CPA Canada Management Briefing
 - Determine timeframe
 - How will you communicate new standard requirements with any third parties? When?
 - CPA Canada Third Party Briefing
 - Determine timeframe

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General Matters

- How? When? Other communication considerations:
 - Fee discussions needed?
 - Coordinate with new engagement letter?
- Firm branding: Create “wrap around” communication using CPA Canada Guides?



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Scoping – Decisions Required

- What is the process to determine the services provided to your clients?
 - All at once vs. engagement by engagement
 - Formal vs. informal
 - Review client engagements and:
 - Discuss services provided with your client
 - Understand the service being provided
 - Conclude on scope exclusions
- How are you going to document scoping exercise?
 - Existing firm client listing
 - Scoping spreadsheet
 - Other

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Overall Requirements – Decisions Required

- What is the process for identifying independence matters?
 - Code of Professional Conduct (Rule 204)
 - Discuss with client
 - Perform in conjunction with scoping exercise
- Do any independence issues exist?
 - Identify clients where further independence consideration required
 - Conclude on independence
- Where independence matters exist, what is process to ensure included in compilation report?
 - Include in report if not independent

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Acceptance and Continuance – Decisions Required

- What is process for determining intended use of the FI?
 - Discuss with client
 - Perform in conjunction with scoping exercise
 - If third party user confirm:
 - Third party in a position to obtain further information
 - Agreed upon basis of accounting

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Scoping – Sample Scoping Spreadsheet

Firm Name: _____
 Client Scoping Template
 Partner A
 CSRS 4200 Implementation
 Effective date: Engagements ending on or after December 31, 2021

Client Name	Services provided (Describe)	Scope exemption applies? (Y/N)	Independence matters to address? (Y/N)	Intended use of FI (Describe)	Is FI provided to a third party? (Y/N)	If Y (or N), does Third Party have access to Further information? (Y/N)	If N (or Y), is described in agreement with Third Party? (Y/N)	If N (or R&G), provide reason for continuing engagement (Describe)	New standard discussed with client? (Date)	Engagement letter sent? (Date)
	A	B	C	D	E	F	G	H	I	J
Client 1										
Client 2										
Client 3										
Client 4										
Client 5										
Client 6										
Client 7										
Client 8										
Client 9										
Client 10										

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Acceptance and Continuance – Decisions Required

- What is the process to update the firm’s engagement letter template?
 - CSRS 4200 Appendix 1
 - PEG Engagement letter
 - Specific firm tailoring
 - Specific client tailoring
- When will the initial engagement letter be sent?
 - Timing of initial engagement letter
- How often will engagement letter be sent thereafter?
 - Annually
 - Every #x years

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Acceptance and Continuance – Engagement Letter

- Tailor engagement letter for:
 - Basis of Accounting
 - Intended use of compiled financial information
 - Management only?
 - Third parties?
 - ❖ Access to further information
 - ❖ Agreed upon basis of accounting
- Additional tailoring for:
 - Firm branding
 - Client circumstances
 - Additional clauses – privacy, termination, fees, terms, legal

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Basis of Accounting – Decisions Required

- How many template notes will be required?
 - Define industries based on firm’s client portfolio
 - Create preliminary “template” for each industry identified
- What is the firm’s process for drafting template basis of accounting notes?
 - Draft template notes
 - Ensure accessible for all
 - Shared drive
 - Client file
 - Template file

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Basis of Accounting – Sample Notes

CPA Canada CSRS Implementation Tool for Practitioners

Appendix C: Examples provided for certain specific industries:

- Real Estate Rental
- Retail
- Professional Services
- Agriculture
- Investment Companies

Appendix C – Examples of Descriptions of the Basis of Accounting

An important feature of section 3000 was that the standard was applied using a broad range of possible bases of accounting. CSRS 4200 is premised on the same principle and enables that compiled financial information may be prepared in accordance with different bases of accounting. Bases of accounting may be established by one of the following:

- an authorized or recognized standard-setting organization
- prescribed by law, regulation or contract
- developed by management

CSRS 4200 requires that you include a note in the compiled financial information describing the basis of accounting applied in the preparation of the compiled financial information. The purpose of this note is to assist users in understanding how the compiled financial information is prepared.

Illustrations of bases of accounting commonly encountered in compilation engagements are:

- a cash basis of accounting, for example:
 - The financial information has been prepared on the cash basis of accounting. (See CSRS 4200 Para. A.29)
- a cash basis of accounting with selected accruals and accounting estimates:
 - See examples below for variations on this basis of accounting within specific industries.
- a basis of accounting prescribed by a contract or other form of agreement established by a creditor or regulator, for example:
 - The financial information has been prepared on a basis of accounting prescribed by the provision in the contract between ABC Company and the bank of ABC Company. (See CSRS 4200 Para. A.29)

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Basis of Accounting – Decisions Required

- How will basis of accounting note be tailored to specific client circumstances?
 - Tailor
 - Consider unique situations
 - Include reference to basis of accounting in engagement letter

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Basis of Accounting – Sample Notes

- Draft by financial statement line item, not industry
- Not required to have a policy for every item
- Factors to consider in tailoring to client:
 - Nature of the industry
 - Intended use of the compiled FI
 - “Unique” circumstances
 - Specific financial reporting requirements
 - Applicable law
 - Regulatory reporting requirements
 - Contractual provisions with third party

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Performing the Engagement and Documentation – Decisions Required

- What is the client engagement template file set up?
 - Existing template
 - Revision
- What is the client engagement template format?
 - Acceptance/continuance
 - Knowledge of the business
 - Completion

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Performing the Engagement and Documentation – Decisions Required

- What is the approach to documenting knowledge of the business? When?
 - Consider timing
 - Documentation approach
 - PEG
 - Firm tailored checklist
 - Memo
- How will the firm document management approval of FI?
 - Consider alternatives
 - Email
 - Verbal (with documentation)
 - Written
 - Sign off of final FI
- How will the firm meet other documentation requirements?
 - Evaluate if other documents necessary

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Knowledge of the Business – Documentation

A25. In obtaining knowledge of the entity’s business and operation, 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.

A.26 In obtaining knowledge accounting system and accounting records, consider:

- a) How transactions are recorded, classified and summarized in the entity’s financial information to determine:
 - i. The nature and extent of accounting adjustments that might need to be made for the compiled FI to be prepared in accordance with the basis of accounting selected by management; and
 - ii. Whether information provided is not otherwise misleading;
- b) The types of matters that required accounting adjustment to the entity’s financial information prior periods.

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Knowledge of the Business – Documentation

- Documentation:
 - PEG forms?
 - Firm tailored forms?
 - Combination?
- Starting point depends on what is currently used in existing files to document client knowledge

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Knowledge of the Business – Documentation

- CSRS 4200 PEG forms released (2020 release)
- Includes:
 - C1-10 – Engagement acceptance/continuance
 - C2-10 – Knowledge of the entity
 - C2-90 – Worksheet – Time budget
 - C3-10 – Completion checklist
 - C3-90 – Worksheet - Withdrawal
 - C3-95 – Report transmittal

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Performing the Engagement and Documentation – Decisions Required

- How will staff be trained on file set up and documentation tools?
 - Develop training plan
 - Determine timing of training
- How will the firm roll out the tools and templates?
 - Full roll out
 - Pilot files

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Compiling the FI – Decisions Required

- What is the format of the compiled financial information?
 - Set up financial information template
 - New template needed or existing template adequate?
 - Consider timing in conjunction with issuing new report
- What is the process to add basis of accounting note?
 - Tailor to client specific circumstances
 - Where to save?

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Other Matters – Decisions Required

- None
 - Respond as necessary if situation encountered during engagement
 - Document and include in file

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Compilation Engagement Report – Decisions Required

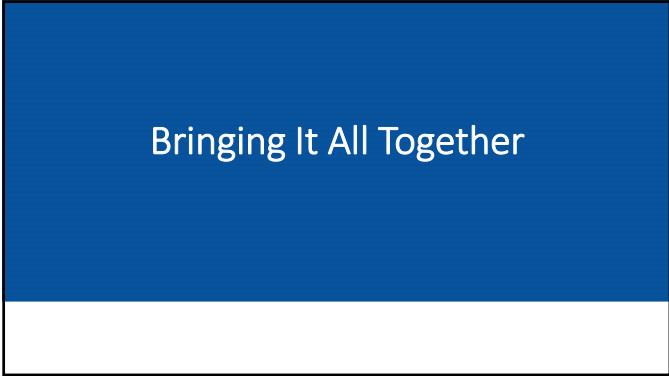
- How is the compilation engagement report updated into client template?
 - Update firm templates
- Are any changes in workflow needed due to approval/dating requirement?
 - Consider workflow
 - Consider approval of FI
 - Consider current FI release procedures

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Final Steps – Decisions Required

- What other firm decisions are required as a result of implementation of the new standard?
 - To address as required
- Any other matters to consider?
 - To address as required

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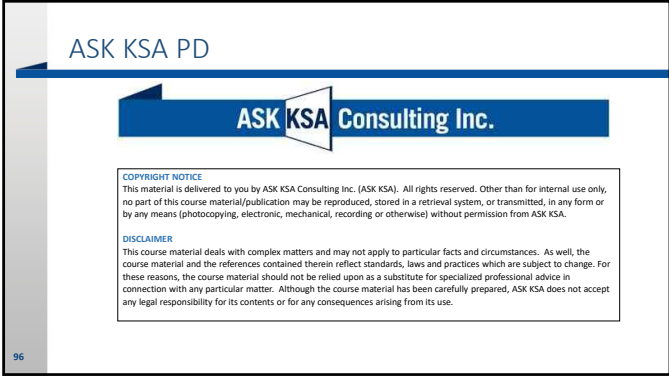
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