

# **New Compilation Engagement Standard**

## **Impact of the New Compilation Engagement Standard**

New professional requirements relating to the provision of compilation engagement services are effective for all December 31, 2021 and subsequent year-ends. We wanted to inform you of these changes early, request some of the additional information we will require, and consider any further impact to you or your business early on.

To minimize any disruption in the adoption of these new professional requirements, we have prepared this information package for our review and discussion.

The significant changes of the new compilation engagement standard when compared to the previous standard, under which your financial statements have been historically prepared, are as follows:

1. Identification of all third parties, other than management, who are recipients of the compiled financial statements.
2. Agreement on the basis of accounting to be applied in the preparation of your financial statements and related disclosure to be included with your financial statements.
3. Issuance of a new compilation engagement report which replaces our current report, referred to as the 'Notice-to-Reader'.
4. Documentation of additional information related to your accounting systems and processes.
5. Management review and authorization of a suite of engagement documents prior to issuing the financial statements and filing the related tax returns.

## **Identification of Third Parties**

### **Users of the Financial Statements**

We need to be made aware of any third party, other than management, who receives the financial statements or financial information provided under the compilation engagement service.

The following are examples of the types of third parties that could receive a copy of the year-end financial statements:

- Management, owner/director internal use only including Canada Revenue Agency compliance
- Commercial banks / credit unions
- Other lenders
- Minority shareholders
- Key employees under succession planning or compensation-based programs
- Brokers or potential purchasers of the Company or its assets
- Surety bonding (construction)
- Third-party regulators, such as:
  - IATA (International Air Transport Association)
  - Private Career Training Institutions
  - Provincial Law Society
  - Provincial Real Estate Council

We will provide you with documentation to complete and return to us to communicate the third-party recipients of your financial statements, if any, as part of your year-end compilation engagement.

We may need you to obtain an acknowledgement, from various third parties who do not have rights under the current relationship with the company, to obtain further information they may require. We will advise if this is required and provide you with proposed communication, **Appendix A**, to assist you in this manner. Unfortunately, we are not able to initiate this communication on your behalf.

## **Basis of Accounting Required New Disclosure**

The financial statements will need to include disclosure noting the basis of accounting. We will start with a cash basis of accounting and work with you to select various accruals and estimates required for tax compliance and to meet the needs of any users of the financial statements.

## Sample Basis of Accounting

The following is an example of a proposed basis of accounting for an entity that accounts for all transactions on a cash basis with the addition of certain necessary accruals and/or estimates:

### Note 1

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 payable and accrued liabilities.
- accounts receivable less specifically identified bad debts.
- inventory recorded at landed cost
- current income taxes payable as at the reporting date; and
- capital assets recorded at cost and amortized at rates allowable for tax purposes.

We will assist you in the development of the basis of accounting.

Prior to your year-end work, we will send an Engagement Letter along with a preliminary basis of accounting policy developed from your prior accounting policies. We will review this with you as part of your year-end engagement to ensure that it accurately reflects the company's current accounting practices.

## New Compilation Engagement Report

### Sample Compilation Engagement Report

Below is a draft of the expected compilation engagement report to be issued with your financial statements for all fiscal year ends ending on or after December 31, 2021.

#### COMPILATION ENGAGEMENT REPORT

To Management of ABC Company:

On the basis of information provided by management, we have compiled the balance sheet of [client] as at December 31, 2021 and the statements of earnings 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 statements.

Management is responsible for the accompanying financial statements, 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 have not performed 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.

TRENTON, Canada  
Date

Chartered Professional Accountants  
Licensed Public Accountants

## APPENDIX A

### Draft Communication for Management Acknowledgement of Third-Party Acceptance

In most cases, such as with commercial lending, the users of the financial statement have access to any further information they require under the lending agreement. However, there may be third parties who do not have access to further information, such as minority shareholders or other subordinated lenders. Should this be the case, we will need to obtain an acknowledgement from you that the third party has agreed to the basis of accounting and the execution of a compilation engagement, as opposed to a review or audit engagement.

Unfortunately, this is not a communication that we can make on your behalf. To assist you, we have drafted a short communication that you are welcome to use, or modify as you see fit, to obtain this confirmation.

We will be sending you additional information prior to the commencement of your year-end engagement to assist with the identification of third-party users.

#### Draft Communication for Third Parties

In discussion with our accountant, Wilkinson & Company LLP, we would like to bring to your attention a change in the accounting requirements for our compiled financial statements. The financial statements will include disclosure providing information on the basis of accounting.

The proposed basis of accounting is to apply the historical cost basis reflecting cash transactions with the addition of the necessary accruals and/or estimates as noted below:

##### Basis of Accounting

- *Insert entity specific Basis of Accounting*

Any necessary modifications identified throughout the engagement will be approved and the finalized basis of accounting will be disclosed in the financial statements.

For further information about this new standard as well as a copy of the new compilation engagement report, please review to the professional publication found here <https://www.cpacanada.ca/en/business-and-accounting-resources/audit-and-assurance/standards-other-than-cas/publications/new-compilation-standard-guidance-resources/third-party-briefing>

## **APPENDIX B**

### **CPA Canada Communication to Management**

CPA Canada has issued a summary of the new requirements which can be found here:

<https://www.cpacanada.ca/en/business-and-accounting-resources/audit-and-assurance/standards-other-than-cas/publications/new-compilation-standard-guidance-resources/management-briefing>

You are welcome to distribute this documentation to your controller or others in the management team where helpful.