



**CPA**

CHARTERED  
PROFESSIONAL  
ACCOUNTANTS  
CANADA

# Understanding Reports on Financial Statements



# Understanding Reports on Financial Statements

**DISCLAIMER**

This guide was prepared by the Chartered Professional Accountants of Canada (CPA Canada) as non-authoritative guidance. It has not been approved by the Auditing and Assurance Standards Board, the Accounting Standards Board or the Public Sector Accounting Board.

This publication reflects assurance standards effective for financial statements for periods beginning February 1, 2020.

CPA Canada does not accept any responsibility or liability that might occur directly or indirectly as a consequence of the use or application of, or reliance on this material.

© 2020 Chartered Professional Accountants of Canada

All rights reserved. This publication is protected by copyright and written permission is required to reproduce, store in a retrieval system or transmit in any form or by any means (electronic, mechanical, photocopying, recording, or otherwise).

For information regarding permission, please contact [permissions@cpacanada.ca](mailto:permissions@cpacanada.ca)

# Foreword

Chartered Professional Accountants (CPAs) are valued for their integrity and proven financial expertise. The CPA's signature on an audit report means the CPA can provide reasonable assurance on the presentation of the organization's financial position, performance and cash flows.

It is important to note that not all financial statements are audited. Many small organizations do not require an audit. Their reporting needs can be met in other ways (e.g., through reviews or compilations).

Whether the CPA is required to perform an audit, a review or a compilation, those who read financial statements and the accompanying communication can be confident the engagement was conducted in accordance with the rules of professional conduct/code of ethics.

# Table of Contents

Introduction	1
Financial Statements	2
Applicable Financial Reporting Frameworks	3
Considering the Users of Financial Statements	4
Levels of Service Provided by CPAs With Respect to Financial Statements	5
<b>Understanding the Term “Assurance”</b>	5
<b>Assurance Obtained by Type of Engagement</b>	6
<b>Materiality: What Is It and How Does It Impact Me?</b>	6
<b>Comparing Audits, Reviews and Compilations</b>	7
Audit	10
<b>Explanation of the Independent Auditor’s Report</b>	14
Review	17
<b>Explanation of the Review Engagement Report</b>	19
Compilation	21
<b>Notice to Reader in Accordance with Section 9200, <i>Compilation Engagements</i> Effective for Periods Ending Before December 14, 2021</b>	22
<b>Explanation of the Notice to Reader</b>	22
<b>Compilation Engagement Report in Accordance with CSRS 4200, <i>Compilation Engagements</i> Effective for Periods Ending on or After December 14, 2021</b>	23
<b>Explanation of the Compilation Engagement Report</b>	24
Appendix: Description of Terms Used in This <i>Guide</i>	25

# Introduction

Entities and users of their financial information have diverse business reporting and information needs. As an owner or management of an entity, it is important for you to understand the needs of the users of your entity's financial information. In addition, understanding the types of reports attached to financial statements enables users to make better-informed decisions.

The objective of this *Guide* is to provide information related to financial statements and the different levels of service a CPA can provide with respect to communications on the financial statements (i.e., an audit, a review or a compilation).

# Financial Statements

Financial statements are a formal record of the financial activities of a business, person or other entity over a period of time and/or the financial position of a business, person or other entity at a point in time. Management is responsible for preparing financial statements; however, in some cases organizations without financial expertise may engage the services of CPAs to prepare financial statements on their behalf.

Annual financial statements prepared for stakeholders are usually prepared in accordance with an applicable financial reporting framework specified in law or regulation. For profit-oriented private entities financial statements normally include:

- balance sheet showing assets, liabilities and equity as at year end
- statement of income showing the results of operations for the year
- statement of retained earnings summarizing changes in retained earnings during the year
- statement of cash flows showing operating, investing, and financing activities and how these activities affect the cash position
- notes to financial statements: an integral part of financial statements, which provide additional explanations and details concerning financial statement items

As well, there may be schedules attached providing more detailed information relating to items disclosed in the financial statements.

# Applicable Financial Reporting Frameworks

Most law or regulation indicates that the applicable financial reporting framework for financial statements is Canadian generally accepted accounting principles (GAAP), which are independent standards for use by Canadian organizations. These standards are set out in the *Chartered Professional Accountants of Canada Handbook-Accounting*, and have been approved by the Accounting Standards Board. Governments and other public-sector entities should refer to the *CPA Canada Public Sector Accounting Handbook* to determine the basis of accounting for purposes of their financial reporting.

Canadian GAAP includes several financial reporting frameworks, including International Financial Reporting Standards (IFRS® Standards), Canadian accounting standards for private enterprises (ASPE), Canadian accounting standards for not-for-profit organizations (ASNFPO), and Canadian accounting standards for pension plans. The financial statements would describe the financial reporting framework followed in their preparation. For example, a private enterprise might describe the accounting standards being followed as “Canadian accounting standards for private enterprises.” Publicly accountable entities, and other entities that choose to do so, follow IFRS Standards and describe the accounting standards in the financial statements as “International Financial Reporting Standards.”



# Considering the Users of Financial Statements

Financial statement users may come from different fields and areas of expertise. The types of user or stakeholder who may be relying on financial statements of your business can include:

- shareholders and other investors
- creditors and lenders
- government ministries and agencies
- regulators
- general public

Different users have different needs. Most organizations are required by law to present annual financial statements to shareholders. Certain stakeholders require some form of assurance when using financial statements for lending or investing decisions. For example, investors may be interested in predicting the ability of the entity to earn income and generate cash flows to meet future obligations and to generate a return on investment. Investors can use audited financial statements to make forecasts and projections. Further, regulatory agencies may require certain entities to have their financial statements audited.

# Levels of Service Provided by CPAs With Respect to Financial Statements

CPAs provide three levels of service with respect to communications on financial statements:

- audit
- review
- compilation

These services are conducted in accordance with relevant ethical requirements set out in rules of professional conduct/codes of ethics issued by the various provincial accounting bodies and applicable to the practice of public accounting. These rules/codes apply to the services provided by CPAs and generally cover the following fundamental principles of professional ethics:

- integrity and due care
- objectivity
- professional competence
- confidentiality
- professional behaviour

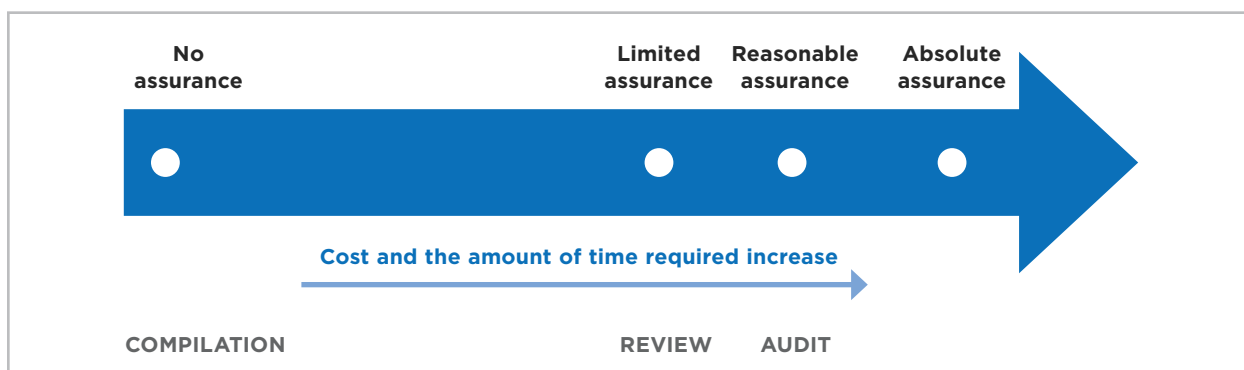
The *CPA Canada Handbook-Assurance* contains the standards the CPA must follow when conducting an audit, review or compilation engagement. This *Guide* reflects audit, review and compilation standards relating to financial statements for periods beginning February 1, 2020.

## Understanding the Term “Assurance”

Assurance is what the CPA aims to obtain in order to express a conclusion designed to enhance the degree of confidence of the intended users that the financial statements are free from material misstatement due to fraud or error. It is not possible to obtain absolute assurance because the inherent limitations to an audit or a review make most of the evidence on which the CPA’s conclusion is based persuasive rather than conclusive. The CPA should in theory be able to vary infinitely the level of assurance obtained in an engagement. However, in order to help users understand the level of assurance obtained, the standards limit

assurance to two distinct levels: reasonable assurance (which is a high level of assurance) and limited assurance. The level of assurance also determines the appropriateness of audit evidence/supporting documentation (e.g., quality, relevance and reliability) and the extent of procedures required to be performed by the CPA.

## Assurance Obtained by Type of Engagement



## Materiality: What Is It and How Does It Impact Me?

Financial reporting frameworks often discuss the concept of materiality in the context of the *preparation and presentation* of financial statements by preparers. The concept of materiality is also applied by the CPA both in *planning and performing an assurance engagement* and in evaluating the effect of identified misstatements on the engagement and of uncorrected misstatements, if any, on the financial statements. In both situations, management and the CPA must exercise professional judgment in determining and applying materiality both when they prepare financial statements and when planning/performing an assurance engagement.

In general, misstatements, including omissions, are considered to be material if individually or in the aggregate they could reasonably be expected to influence the economic decisions of users made on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances and are affected by the CPA's perception of the financial information needs of users of the financial statements and by the size or nature of a misstatement, or a combination of both.

In addition, when planning/performing an audit engagement, it is not practicable for the CPA to design audit procedures capable of detecting all misstatements that could be material solely by their nature. Further, the CPA evaluates the effect on the financial statements of all uncorrected misstatements by considering both the size and nature of uncorrected misstatements and the particular circumstances of their occurrence.

Thus, the CPA's opinion deals with the financial statements as a whole and, therefore, the CPA is not responsible for the detection of misstatements not material to the financial statements as a whole. This is the reason why CPAs can only obtain reasonable assurance and not absolute assurance from even audited financial statements!

## Comparing Audits, Reviews and Compilations

	Audit	Review	Compilation <sup>1</sup>
Nature of involvement	<ul style="list-style-type: none"> <li>application of Canadian generally accepted auditing standards</li> </ul>	<ul style="list-style-type: none"> <li>application of Canadian generally accepted standards for reviews</li> </ul>	<ul style="list-style-type: none"> <li>application of other Canadian standards for compilations</li> </ul>
Objective (of the practitioner)	<ul style="list-style-type: none"> <li>to form an opinion on whether the financial statements were prepared, in all material respects, in accordance with an applicable financial reporting framework</li> </ul>	<ul style="list-style-type: none"> <li>to form a conclusion on whether anything has come to the practitioner's attention to cause the practitioner to believe the financial statements were not prepared, in all material respects, in accordance with an applicable financial reporting framework</li> </ul>	<ul style="list-style-type: none"> <li>to compile financial information into financial statements based on information provided by the client (Section 9200)</li> <li>to compile financial information in accordance with the described basis of accounting applied (CSRS 4200)</li> </ul>
Communication provided	<ul style="list-style-type: none"> <li>opinion (see illustrative report on <a href="#">page 11</a>)</li> </ul>	<ul style="list-style-type: none"> <li>conclusion (see illustrative report on <a href="#">page 18</a>)</li> </ul>	<ul style="list-style-type: none"> <li>notice to reader or compilation engagement report (see illustrative reports on <a href="#">page 22</a> and <a href="#">23</a>)</li> </ul>
Level of assurance	<ul style="list-style-type: none"> <li>reasonable</li> </ul>	<ul style="list-style-type: none"> <li>limited</li> </ul>	<ul style="list-style-type: none"> <li>none</li> </ul>
Basis of presentation	<ul style="list-style-type: none"> <li>financial reporting framework (IFRS Standards, ASPE or ASNFPO)</li> </ul>	<ul style="list-style-type: none"> <li>financial reporting framework (IFRS Standards, ASPE or ASNFPO)</li> </ul>	<ul style="list-style-type: none"> <li>financial reporting framework selected by management (e.g., cash basis)</li> </ul>

<sup>1</sup> A compilation engagement can be performed in accordance with Section 9200, *Compilation Engagements* (for periods ending before December 14, 2021) or CSRS 4200, *Compilation Engagements* (for periods ending on or after December 14, 2021 although earlier application is permitted).

	Audit	Review	Compilation
Benefits	<ul style="list-style-type: none"> <li>strongest indicator of the credibility of the financial statements</li> <li>can help detect deficiencies in internal controls, which may highlight areas susceptible to fraud, identify potential process improvements, or identify potential tax-reduction strategies</li> <li>can identify material misstatements or non-compliance with the applicable financial reporting framework</li> </ul>	<ul style="list-style-type: none"> <li>enhances confidence the financial statements have been prepared in accordance with the applicable financial reporting framework</li> <li>can identify material misstatements or non-compliance with the applicable financial reporting framework</li> </ul>	<ul style="list-style-type: none"> <li>CPA can assist management with the preparation and presentation of financial information</li> </ul>
Example scenarios/ reasons for use	<ul style="list-style-type: none"> <li>where shareholders, investors or potential investors use the financial statements for their (continued) investment decisions</li> <li>where lenders/creditors require audited statements within a loan agreement</li> <li>where laws or regulations require an audit for certain entities</li> </ul>	<ul style="list-style-type: none"> <li>when no audit requirement exists but users still require some assurance</li> <li>where a review engagement is acceptable, for obtaining financing, providing information to investors, or selling a business</li> <li>preparing a growing business for transition to audit</li> </ul>	<ul style="list-style-type: none"> <li>when management does not have expertise in financial reporting</li> <li>often combined with another service, such as taxes</li> <li>typically not appropriate for meeting lending/financing requirements unless specifically allowed by the lender/creditor<sup>2</sup></li> </ul>

2 Note that the CPA will not be able to provide additional information on the financial statements or any assurance on the compliance with the applicable financial reporting framework.

	Audit	Review	Compilation
Types of procedures performed by the practitioner	<ul style="list-style-type: none"> <li>risk assessment and audit procedures that respond to the risks identified</li> <li>obtain sufficient appropriate audit evidence as the basis for the opinion</li> <li>procedures are more extensive, will include substantive procedures and may include tests of controls</li> </ul>	<ul style="list-style-type: none"> <li>primarily inquiry and analytical procedures to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole</li> </ul>	<p>Section 9200:</p> <ul style="list-style-type: none"> <li>no requirement to make inquiries or perform procedures</li> </ul> <p>CSRS 4200:</p> <ul style="list-style-type: none"> <li>obtain knowledge related to entity's business and operations, accounting system and records and the basis of accounting used</li> <li>discuss with management significant judgments for which assistance has been provided by the practitioner</li> </ul>
Cost comparison	<ul style="list-style-type: none"> <li>high</li> </ul>	<ul style="list-style-type: none"> <li>medium</li> </ul>	<ul style="list-style-type: none"> <li>low</li> </ul>

The table above provides a high-level comparison of each service; however, there are many additional factors to consider when determining which service is most appropriate. Such factors can include:

- type of user
- whether the entity is public or private
- whether there are any laws or regulations requiring a specific type of assurance report
- whether there are any financing requirements
- size, structure and complexity of the business or entity
- whether there are future business or growth plans

The following pages explain these three types of engagement in more detail along with an example report. Please note: only engagements that use historical financial information are considered. Engagements related to single financial statements, specific elements, accounts or items of a financial statement, compliance engagements, attestation or direct engagements, or other engagements reporting on controls at service organizations are not included in this comparison. If you require information related to such engagements, please contact your practitioner to discuss your needs further.

# Audit

<b>Nature of involvement:</b>	Application of Canadian generally accepted auditing standards
<b>Communication provided:</b>	Independent Auditor's Report
<b>Level of assurance:</b>	Reasonable assurance

---

A CPA engaged to perform an audit may be referred to as an auditor. An audit enhances the confidence of users in financial statements through the expression of an opinion by the auditor on whether the financial statements are prepared in all material respects in accordance with an applicable financial reporting framework.

The financial statements subject to audit are prepared by management with oversight from those charged with governance. An auditor is responsible to the shareholders and examines the company's financial records and operations on their behalf to determine whether the information reported in the financial statements is presented fairly. The auditor communicates this assessment to shareholders through the expression of the audit opinion.

If the auditor discovers the financial statements depart materially from the applicable financial reporting framework, this fact is disclosed in the auditor's report.

1 INDEPENDENT AUDITOR'S REPORT\*

2 [Appropriate Addressee]

3 **Opinion**

We have audited the financial statements of ABC Company (the Entity), which comprise the balance sheet as at December 31, 20X1, and the statements of income, retained earnings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 20X1, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

4a **Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

4b

4c

5 **Other Information**

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.



## 6a Responsibilities of Management and Those Charged With Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

8

### **Report on Other Legal and Regulatory Requirements**

[Not included in illustrative report]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

9

[Date]

\* The above audit report has been prepared given specific assumptions related to the example entity's circumstances. Note that audit reports may differ given the entity's circumstances; the above example is for illustrative purposes only. Practitioners are required to follow the new and revised auditor reporting standards approved by the Canadian Auditing and Assurance Standards Board (AASB) for all audits of financial statements for periods ending on or after December 15, 2018.

## Explanation of the Independent Auditor's Report

- 1 Independent auditor's report**

The auditor's report has a title that clearly indicates it is the report of an independent auditor.
- 2 Addressee**

The auditor's report may be addressed to shareholders when that is the primary group to whom the auditor is responsible in corporate audits. The auditor's report for other organizations is addressed as appropriate (e.g., to the members or board of directors for non-profit organizations).
- 3 Opinion section**

The auditor's opinion is not a statement of fact and does not assure the future viability of the organization or the efficiency or effectiveness with which management has conducted the affairs of the organization. The opinion indicates that the auditor has obtained a reasonable but not absolute level of assurance.
- 4a Basis for opinion section**

The basis for opinion is an explicit statement about the auditor's independence in accordance with relevant ethical requirements and the auditor's fulfilment of other ethical responsibilities. The audit is planned and performed using professional judgment and professional skepticism, recognizing that circumstances may exist that cause the financial statements to be materially misstated.
- 4b Canadian generally accepted auditing standards**

These standards require the auditor to comply with relevant ethical requirements, including those pertaining to independence relating to financial statement audits. The audit is planned and performed using professional judgment and professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated.
- 4c Sufficient appropriate audit evidence**

The auditor needs sufficient appropriate audit evidence before they can conclude on the fair presentation of the financial statements. If the auditor is unable to obtain all such evidence, the auditor may not be able to reach a conclusion on the financial statements.

**5 Other information section**

This is a separate section in which an entity prepares and presents other information (e.g., an annual report) containing or accompanying the entity's financial statements and auditor's report thereon. This section explains management's and the auditor's responsibilities for the other information and the auditor's conclusion from reading and considering this other information.

**6a Responsibilities of management and those charged with governance for the financial statements section**

This section describes management's responsibility for the fair presentation of the financial statements in accordance with the applicable framework and assessing the entity's ability to continue as a going concern. An audit is conducted on the premise that management has acknowledged certain responsibilities fundamental to the conduct of the audit. The audit does not relieve management of its responsibilities.

**6b Fair presentation framework**

When the financial statements are prepared in accordance with a fair presentation framework (e.g., ASPE or IFRS Standards), the explanation of management's responsibility refers to "the preparation and fair presentation of these financial statements."

**6c Canadian accounting standards for private enterprises**

Corporations acts or other governing legislation, or a contract, may require an organization to prepare its financial statements in accordance with Canadian generally accepted accounting principles. The description of the financial reporting framework explains which specific accounting standards are being followed. Entities that follow IFRS Standards would describe the financial reporting framework as "International Financial Reporting Standards."

**7a Auditor's responsibilities for the audit of the financial statements section**

This section explains that the auditor's responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that expresses an opinion and highlights the audit process.

**7b Reasonable assurance**

Reasonable assurance is a high level of assurance only provided after the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (i.e., the risk that the auditor expresses an inappropriate opinion when the financial statements are actually materially misstated) to an acceptably low level. However, reasonable

assurance is not an absolute level of assurance because there are inherent limitations to any audit which make most of the evidence from which the auditor draws conclusions and bases their opinion persuasive rather than conclusive.

8

**Report on other legal and regulatory requirements**

If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibilities under Canadian generally accepted auditing standards, these other reporting responsibilities are included in a separate section in the auditor's report. Not included in illustrative report.

9

**Date**

The date indicates the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements.

# Review

<b>Nature of involvement:</b>	Application of Canadian generally accepted standards for reviews
<b>Communication provided:</b>	Independent Practitioner's Review Engagement Report
<b>Level of assurance:</b>	Limited assurance

---

A CPA engaged to perform a review engagement may be referred to as a practitioner. In a review engagement, the responsibilities and the report that explains the practitioner's involvement with the financial statements differ significantly from those of an audit. The objectives are different and, accordingly, so are the procedures.

The practitioner's objective in a review engagement is to obtain limited assurance primarily by performing inquiry and analytical procedures to determine whether the financial statements as a whole are free from material misstatement. The practitioner may then express a conclusion on whether anything has come to their attention that causes them to believe the financial statements are not prepared in all material respects in accordance with an applicable financial reporting framework.

If the practitioner discovers the financial statements depart materially from the applicable financial reporting framework, this fact is disclosed in the review engagement report.

- 1 INDEPENDENT PRACTITIONER'S REVIEW ENGAGEMENT REPORT
- 2 [Appropriate Addressee]
- 3 We have reviewed the accompanying financial statements of ABC Company that comprise the balance sheet as at December 31, 20X1, and the statements of income, retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.
- 4 **Management's Responsibility for the Financial Statements**  
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- 5a **Practitioner's Responsibility**  
Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with Canadian generally accepted standards for review engagements, which require us to comply with relevant ethical requirements.
- 5b A review of financial statements in accordance with Canadian generally accepted standards for review engagements is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.
- 5c The procedures performed in a review are substantially less in extent than, and vary in nature from, those performed in an audit conducted in accordance with Canadian generally accepted auditing standards. Accordingly, we do not express an audit opinion on these financial statements.
- 5d
- 6 **Conclusion**  
Based on our review, nothing has come to our attention that causes us to believe that the financial statements do not present fairly, in all material respects, the financial position of ABC Company as at December 31, 20X1, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

7

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

## Explanation of the Review Engagement Report

- 1 Independent practitioner's review report**

The practitioner's report has a title that clearly indicates it is the report of an independent practitioner.
- 2 Addressee**

The review engagement report is usually addressed to the person who engaged the practitioner.
- 3 Introductory paragraph**

This paragraph identifies the entity whose financial statements have been reviewed, states that the financial statements have been reviewed, identifies the title of each statement, refers to the summary of significant accounting policies and other explanatory information and specifies the date or period covered by each financial statement.
- 4 Management's responsibility for the financial statements**

This paragraph describes management's responsibility for the fair presentation of the financial statements in accordance with the applicable framework. A review is conducted on the premise that management has acknowledged certain responsibilities fundamental to the conduct of the review. The review does not relieve management of its responsibilities.
- 5a Practitioner's responsibility paragraph**

This paragraph explains the practitioner's responsibility to express a conclusion on the financial statements based on the review and explains the typical types of procedures performed in a review engagement.
- 5b Canadian generally accepted standards for review engagements**

These standards require the practitioner to comply with relevant ethical requirements, including those pertaining to independence and reviews of financial statements. The review is planned and performed using professional judgment and professional skepticism, recognizing that circumstances may exist that cause the financial statements to be materially misstated.



**5c****Limited assurance**

This is the level of assurance obtained from performing the review engagement procedures where engagement risk is reduced to a level acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement (e.g., an audit).

**5d****State no audit performed/disclaim opinion**

The practitioner clearly states that procedures performed in a review are substantially less than and vary from those performed in an audit and that no audit opinion is expressed.

**6****Conclusion paragraph**

This paragraph explains the limited assurance obtained (i.e., although sufficient evidence was not obtained to allow the practitioner to express an audit opinion, nothing has come to the practitioner's attention to cause a belief that the information being reported on is not, in all material respects, in accordance with the applicable financial reporting framework). The description of the financial reporting framework explains which specific accounting standards are being followed. Entities that follow International Financial Reporting Standards would describe the financial reporting framework as "International Financial Reporting Standards."

**7****Date**

The date indicates the date on which the practitioner has obtained sufficient appropriate evidence as the basis for the practitioner's conclusion on the financial statements.

# Compilation

<b>Nature of involvement:</b>	Application of Canadian compilation standards
<b>Communication provided:</b>	Notice to Reader or Compilation Engagement Report
<b>Level of assurance:</b>	No assurance

---

A CPA engaged in a compilation engagement may be referred to as a practitioner. The compilation engagement is the lowest level of practitioner involvement with financial statements that can lead to a communication. This type of engagement can be used in those limited circumstances where the owners, management and other users do not need financial statements containing all the disclosures normally required for general-purpose use nor do they need the assurance provided by an audit or a review. In a compilation engagement, the financial statements need not necessarily be in accordance with a financial reporting framework such as ASPE and instead may be prepared on another basis of accounting such as a cash basis. Nevertheless, such statements may be appropriate for users such as management who are aware of the possible limitations of the statements.

The rules of professional conduct/code of ethics for CPAs require the practitioner to disclose in the Notice to Reader or Compilation Engagement Report the nature of any activity or relationship and the nature and extent of any interest in respect of the compilation engagement, which would be seen by a reasonable observer to impair the practitioner's independence.

No expression of assurance is provided in a compilation engagement.

## Notice to Reader in Accordance with Section 9200, *Compilation Engagements Effective for Periods Ending Before December 14, 2021*

- 1 NOTICE TO READER
- On the basis of information provided by management (or the proprietor), I have compiled the balance sheet of Client Limited as at \_\_\_, 20X1, and the statements of income, retained earnings and cash flows for the (period) then ended.
- 2 I have not performed an audit or a review engagement in respect of these financial statements and, accordingly, I express no assurance thereon.
- 3 Readers are cautioned that these statements may not be appropriate for their purposes.
- City (printed or signed) \_\_\_\_\_ PRACTITIONER \_\_\_\_\_
- Date \_\_\_\_\_
- 4

### Explanation of the Notice to Reader

- 1 **Nature of assignment**  
Explicit reference is made as to the work done by the practitioner (i.e., compiled statements from information supplied by management or the proprietor but did not audit or review the statements).
- 2 **Scope limitations**  
It is clearly stated that the practitioner's work is limited and did not include an audit or review. There is no form of assurance implied by the practitioner or expressed on the financial statements.
- 3 **Caution to readers**  
Since management or the proprietor (not the practitioner) determines the distribution of the statements, it is necessary to convey a caution to readers. The statements may not be appropriate for the users' purposes.
- 4 **Practitioner**  
Compilation services are not regulated in all provinces. Before engaging a person to perform a compilation engagement, it is prudent to check whether such engagements are regulated in that particular province and, if so, whether the person to be engaged is appropriately licensed.

## Compilation Engagement Report in Accordance with CSRS 4200, *Compilation Engagements Effective for Periods Ending on or After December 14, 2021*

### 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 compiled 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 of the financial information.
- 5 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.
- 6 Readers are cautioned that the financial information may not be appropriate for their purposes.
- 7 [Practitioner’s signature]
- 8 [Date of the report]  
  
[Practitioner’s address]

## Explanation of the Compilation Engagement Report

- 1 Addressee**

Addressee is the party who engages the practitioner – management or those charged with governance
- 2 Introductory paragraph**

The introductory paragraph includes reference to the note in the compiled financial information that describes the basis of accounting used to prepare the financial information.
- 3 Management's responsibility paragraph**

This paragraph describes management's responsibility for the compiled financial information including the basis of accounting.
- 4 Practitioner's responsibility paragraph**

This paragraph explains the practitioner's responsibility for assisting management in the preparation of the financial information and to perform the engagement in accordance with CSRS 4200, *Compilation Engagements*.
- 5 Explanation paragraph**

It is clearly stated that the practitioner's work is limited and did not include an audit or review. There is no form of assurance implied by the practitioner or expressed on the compiled financial information.
- 6 Caution to readers**

Since management or the proprietor (not the practitioner) determines the distribution of the statements, it is necessary to convey a caution to readers. The statements may not be appropriate for the users' purposes.
- 7 Practitioner**

Compilation services are not regulated in all provinces. Before engaging a person to perform a compilation engagement, it is prudent to check whether such engagements are regulated in that particular province and, if so, whether the person to be engaged is appropriately licensed.
- 8 Date**

The date indicates the date the practitioner has completed the engagement including management's (or those charged with governance) acknowledgement of their responsibility for the final version of the compiled financial information.

# Appendix: Description of Terms Used in This *Guide*

Term	Description
<b>Analytical procedures</b>	Analytical procedures are evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. They also encompass any necessary investigation of identified fluctuations or relationships inconsistent with other relevant information or that differ from expected values by a significant amount.
<b>Error</b>	Error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.
<b>Fraud</b>	Fraud is an intentional act by one or more individuals among management, those charged with governance, employees, or third parties involving the use of deception to obtain an unjust or illegal advantage.
<b>Going concern assumption</b>	Under the going concern assumption, an entity is viewed as continuing in business for the foreseeable future. General-purpose financial statements are prepared on a going concern basis, unless management either intends to liquidate the entity or cease operations or has no realistic alternative but to do so.
<b>Inquiry</b>	Inquiry consists of seeking information from knowledgeable persons within or outside the entity.
<b>Limited assurance</b>	This is the level of assurance obtained where engagement risk is reduced to a level acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in accordance with the Canadian Standard on Review Engagements. The combination of the nature, timing and extent of evidence-gathering procedures is at least sufficient for the practitioner to obtain a meaningful level of assurance. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the reliability of the financial statements.
<b>Materiality</b>	Misstatements, including omissions, are considered to be material if they individually or in the aggregate could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Term	Description
<b>Misstatement</b>	A misstatement is the difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.
<b>Professional judgment</b>	Professional judgment is the application of relevant training, knowledge and experience, within the context provided by assurance, accounting and ethical standards, when decisions are being made about the courses of action appropriate in the circumstances of an applicable engagement.
<b>Professional skepticism</b>	Professional skepticism is an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and leads to a critical assessment of evidence.
<b>Reasonable assurance</b>	In the context of an audit of financial statements, reasonable assurance is a high, but not absolute, level of assurance.
<b>Those charged with governance</b>	Those charged with governance are the person(s) or organization(s) (e.g., a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This responsibility includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel such as executive members of a governance board of a private or public sector entity or an owner-manager.



**CPA**

CHARTERED  
PROFESSIONAL  
ACCOUNTANTS  
CANADA

277 WELLINGTON STREET WEST  
TORONTO, ON CANADA M5V 3H2 T.  
416 977.3222 F. 416 977.8585  
[WWW.CPACANADA.CA](http://WWW.CPACANADA.CA)

COLUMN
9
34
338
944
12 398,1
1 112,77
1 231,55
5 185,78
1 231,22
595,55
5 940,90
3 938,55
3 938,49
2 383,49
3 939,29
39 348,22
3 939,09
65 254,80
593,86
3 839,11
867,48
3 954,11
12 341,59
9 558,37
555,33
2 234,43
228,99
34 173,27
12 312,55
134,44
593,58
4 590,55
4 859,22
9 939,23
34 983,21
217
9 590,55
77 217,28
12 354,85
945,90
9 384,00
3 430