

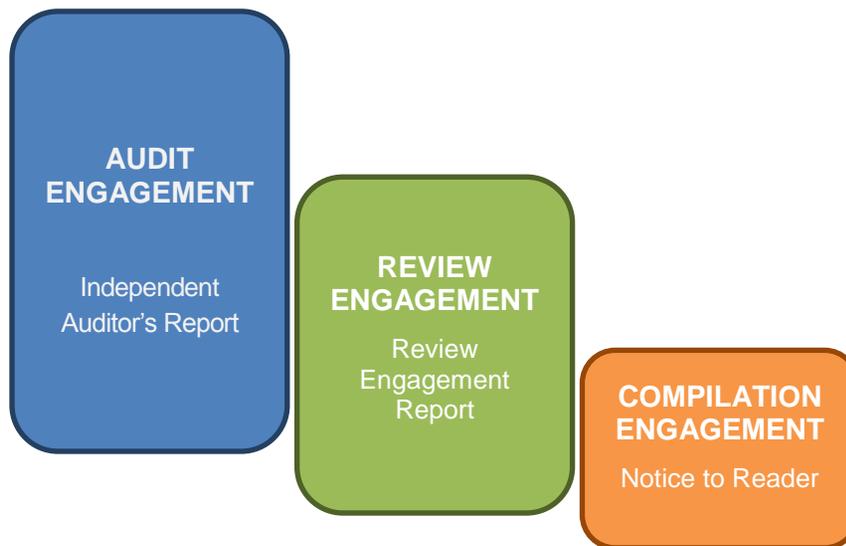
CPAs and financial statements

What are the differences between compilation, review and audit engagements? What role does the CPA play? Here's what you need to know to navigate the engagement landscape.

Most entities, whether corporations, NFPOs or government agencies, are legally required to present annual financial statements to their shareholders, members or the government, as the case may be. The law also requires certain entities to have their financial statements audited. In most cases, an entity's management, with oversight from those charged with governance, is responsible for preparing financial statements. The scope of the CPA's mandate depends on the entity's needs and the requirements it must satisfy.

Chartered professional accountants provide three levels of service with respect to communications (reporting) on financial statements—an audit, a review or a compilation. CPAs perform these services in accordance with their code of ethics and assurance standards established by the Canadian Auditing and Assurance Standards Board (AASB). Assurance standards (which include audit, review and compilation standards) are contained in the *CPA Canada Handbook – Assurance*.

The nature and extent of the work performed by CPAs has a direct impact on the level of assurance or credibility given to the financial statements and the cost of audit, review and compilation services. For each service, the CPA provides a different communication (i.e. "Independent Auditor's Report," "Review Engagement Report," or "Notice to Reader"), which sets out the extent of work performed and the level of assurance expressed by the CPA.



Features of each type of engagement

	Audit engagement	Review engagement	Compilation engagement
Nature of involvement	Application of Canadian generally accepted auditing standards	Application of Canadian generally accepted standards for review engagements	Application of Canadian compilation standards
Professional activity reserved for	Chartered Professional Accountants (CPAs) who hold a public accountancy permit	Chartered Professional Accountants (CPAs) who hold a public accountancy permit	Chartered Professional Accountants (CPAs)
Characteristics	<p>An audit provides reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error.</p> <p>The key concept is “reasonable” assurance, which is not an absolute level of assurance. Absolute assurance is not attainable due to inherent audit limitations which result in most of the audit evidence on which the auditor draws conclusions and bases his or her opinion being persuasive rather than conclusive.</p>	<p>A review consists primarily of inquiry, analytical procedures and discussion related to information supplied to the CPA by the client.</p> <p>The CPA’s objective is to determine whether the information being reported on is plausible in the circumstances within the framework of appropriate criteria. “Plausible” is used in the sense of appearing to be worthy of belief.</p> <p>A review does not require the CPA to seek supporting or independent evidence or to study and evaluate internal control.</p>	<p>Compilation consists in compiling an entity’s financial statements based on information available without providing any assurance whatsoever regarding such statements.</p> <p>The CPA receives information from a client and arranges it in the form of a financial statement. The CPA is concerned that the assembly of information is arithmetically correct.</p> <p>Some clients and other users do not need financial statements containing all disclosures normally required in financial statements that comply with a financial reporting framework included in Canadian GAAP, nor do they need the assurance that can be provided by a CPA who performs an audit or a review. Normally, such clients and users would have, or be able to obtain, further information.</p>
Presentation standards	Choice of several financial reporting frameworks included in Canadian generally accepted accounting principles (GAAP)	Choice of several financial reporting frameworks included in Canadian GAAP	Financial reporting framework chosen by management

Code of ethics of CPAs	Members must not sign, prepare, produce or even associate their name with any documents which they know, or should know, contain false or misleading information, out of complacency or without ensuring that such documents are in compliance with good practices or current scientific knowledge.		
Level of assurance	Provides the highest level of assurance (reasonable assurance)	Provides a moderate level of assurance	Provides no assurance
Communication provided	Independent Auditor's Report	Review Engagement Report	Notice to Reader

Communication provided with respect to the financial statements for each type of engagementⁱ

Audit engagement	Review engagement	Compilation engagement
INDEPENDENT AUDITOR'S REPORT	REVIEW ENGAGEMENT REPORT	NOTICE TO READER
<p>Independent Auditor's Report</p> <p>[Appropriate Addressee]</p> <p>We have audited the accompanying financial statements of (COMPANY NAME), which comprise the balance sheet (or statement of financial position) as at (DATE), 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.</p> <p><i>Management's Responsibility for the Financial Statements</i> Management is responsible for the preparation and fair presentation of these financial</p>	<p>To (person engaging the chartered professional accountant)ⁱⁱ</p> <p>I have reviewed the balance sheet of (COMPANY NAME) as at (DATE) and the statements of income, retained earnings and cash flows for the year then ended. My review was made in accordance with Canadian generally accepted standards for review engagements and, accordingly, consisted primarily of inquiry, analytical procedures and discussion related to information supplied to me by the company.</p> <p>A review does not constitute an audit and, consequently, I do not express an audit opinion on these financial statements.</p>	<p>On the basis of information provided by management (or the proprietor), I have compiled the balance sheet of (COMPANY NAME) as at (DATE) and the statements of income, retained earnings and cash flows for the (PERIOD) then ended.</p> <p>I have not performed an audit or a review engagement in respect of these financial statements and, accordingly, I express no assurance thereon.</p> <p>Readers are cautioned that these statements may not be appropriate for their purposes.</p>

<p>statements in accordance with (APPLICABLE FINANCIAL REPORTING FRAMEWORK), 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.</p> <p><i>Auditor's Responsibility</i> Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.</p> <p>An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.</p>	<p>Based on my review, nothing has come to my attention that causes me to believe that these financial statements are not, in all material respects, in accordance with (APPLICABLE FINANCIAL REPORTING FRAMEWORK).</p> <p>City, Province Date</p> <p>Appropriate signature of chartered professional accountant</p>	<p>City, Province Date</p> <p>Appropriate signature of chartered professional accountant</p>
---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------

<p>We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.</p> <p><i>Opinion</i> In our opinion, the financial statements present fairly, in all material respects, the financial position of (COMPANY NAME) as at (DATE), and the results of its operations and its cash flows for the year then ended, in accordance with (APPLICABLE FINANCIAL REPORTING FRAMEWORK).</p> <p>City, Province Date</p> <p>Appropriate signature of chartered professional accountant</p>		
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--	--

ⁱ In accordance with the standards in effect for the 2015 and 2016 fiscal years.