



## ***Financial Statement Assurance Levels***

***March, 2009***

Have you been asked by your bank or other creditors for a review or an audit of your company's financial statements? What is a review or an audit? How are they different from a Notice to Reader?

Asking for a review or an audit is really asking for assurance on the financial statements. The review and audit provide different levels of assurance. Your professional accountant provides many different services. However, for assurance type services there are really only three; the Review, the Audit and the Special report. Now, some of you are thinking "What about my Notice to Reader"? To be clear, the "Notice to Reader" service is not an assurance service.

The professional accountant can provide services such as tax planning and tax return preparation, business or cash flow analysis and general advising or consulting services, to the extent of the independence rules, but these are all non-assurance services and the Notice to Reader (or compilation) falls into this category.

The balance of this article will discuss some of the important differences between Review and Compilation engagements.

### ***Compilation Engagements***

Accountants performing a compilation engagement will produce certain financial statements with a "Notice to Reader" attached. These financial statements will usually consist of a balance sheet and an income statement. There may be a statement of cash flows and there will usually be limited or no notes attached to the financial statements.

In a compilation, the accountant will assemble the financial statements based on the information and data provided by management. The report indicates that the accountant is not providing any assurance on the contents of the financial statements. The report will also make no mention about compliance with Canadian Generally Accepted Accounting Principles (GAAP). Finally, there is cautionary language in the compilation report that the financial statements may not be appropriate for the reader's purposes.

In other words, if you tell the accountant on a compilation engagement that your revenue for the year is a hundred dollars, that accountant will present your revenue on the financial statements at a hundred dollars. No effort will be made to obtain evidence to support or discredit the statement. It is only in the circumstance where a hundred dollars in revenue is obviously an error, or information to the contrary arises, that an accountant will ask further questions.

### ***Review Engagements***

The product of a review engagement is a Review Engagement Report that is attached to the financial statements. Reviewed financial statements will usually consist of a balance sheet, income statement and a statement of cash flows. There will also be notes to the financial statements. This is required as the financial statements should be compliant with Canadian GAAP requirements. If the financial statements do not comply with Canadian GAAP, the accountant may add a reservation paragraph to the opinion, issue an adverse opinion or be unable to complete the engagement.

During the performance of a review engagement, analysis, enquiry and discussion are the principle procedures used to meet the objective of a review engagement. This objective is to ascertain whether the financial statements are plausible. If, after reviewing the financial statements, the accountant is satisfied that the financial statements are plausible (in other words the financial statements are worthy of belief) an accountant's standard (or unqualified) report will be issued. The unqualified report provides negative assurance by stating that nothing has come to the accountant's attention that leads them to believe that the financial statements are not, in all material respects, in accordance with Canadian GAAP.

So, from the example above, if you said your revenue for the year was a hundred dollars, the reviewer may do some analysis, perhaps in regards to the gross margin, cash receipts or inventory to see if that amount is plausible. They may inquire as to why your revenue has increased or decreased from the previous year or from budget. They may also discuss the terms and conditions of the sales to see if the criteria for revenue recognition under Canadian GAAP have been met.

### ***In Summary***

A compilation engagement is where an accountant takes your information and presents it in financial statement form. A review engagement is an assurance service where the accountant will assess the plausibility of the financial statements prepared by management and measure them against standards set within Canadian GAAP and provide a negative assurance opinion on the plausibility of the statements.

We will address the attributes of an audit engagement that differentiate it from a review or compilation engagement in a future newsletter.

*The material contained in this and other newsletters is not intended to be advice on any particular matter. Readers are cautioned not to act on the basis of any matter contained in this newsletter without first considering appropriate professional advice specific to their situation. We would be pleased to provide further information and address any questions that our readers may have.*