
Business Report

Financial Statement Assurance



November 2008

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?

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.

Compilation Engagement

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 Engagement

Accountants performing a review engagement do not prepare or produce the financial statements. This is a key difference between a compilation and a review; if the accountant prepares the financial statements they are no longer independent and therefore cannot provide any assurance upon the financial statements.

To be clear, accountants may suggest or recommend changes or corrections to the financial statements. They may also provide word processing services in regards to the financial statements. These activities generally do not impede their independence as the financial statements are still the responsibility of management. But, an accountant performing review services may not set accounting policies or make management decisions.

The product of a review engagement is a Review Engagement Report that would be 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 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 accountants are 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 in 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 enquire 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 statements.

In the above, we have used certain terms such as independence and materiality that have a greater definition than the words mean by themselves. We also have not discussed the other two types of assurance services; audits and special reports. All of these, we hope to address in the future.

D&H Group LLP continues to keep you informed of changes (and proposed changes) that can affect you and your business. D&H Group LLP is a seventy person firm with over 50 years experience in providing clients with sound professional advice. We are a member of IAPA which has over 130 offices located throughout the world, including major cities in Canada, the U.S., the Pacific Rim countries and Europe.

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 the Business Reports 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.

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