

assurance and related services guideline AuG-16 compilation of a financial forecast or projection

Basis for Conclusions

This Guideline is to be read in conjunction with the *Preface to the CPA Canada Handbook – Assurance*.

This Guideline refers to FUTURE-ORIENTED FINANCIAL INFORMATION, Section 4250.

On March 1, 2020, the Accounting Standards Board (AcSB) removed Part V from the CPA Handbook – Accounting, which included Section 4250. The AcSB has retained the content from Section 4250 as non-authoritative guidance for future-oriented financial information in the CPA Canada Standards and Guidance Collection.

No change has been made to this Guideline as a result of the AcSB's change. Therefore, this assurance and related services guideline is to be adapted as necessary in the circumstances.

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SCOPE AND DEFINITIONS

1. This Guideline deals with services provided by public accountants for those who require assistance in compiling a financial forecast or projection, 1 but who do not require that the public accountant provide assurance concerning such future-oriented financial information. In such engagements, the public accountant receives information from management 2 and compiles a financial forecast or projection. This Guideline provides the minimum standards and procedures a public accountant should meet when compiling a financial forecast or projection. 3
2. In some circumstances, the public accountant may be asked by a client to provide limited assistance with respect to the preparation of a financial forecast or projection and does not anticipate undertaking a compilation engagement. For example, the public accountant may be asked for advice concerning the determination of certain aspects of the financial forecast or projection or to merely type or reproduce the financial forecast or projection on the client's stationery or on plain paper. 4 Provision of such assistance does not constitute a compilation engagement. The public accountant, however, should recognize that he or she is responsible to the client for any work performed and that the public accountant is required to exercise due professional skill and care in the work he or she agrees to perform as well as in any additional work performed.
3. This Guideline does not apply to a financial forecast or projection compiled by, or with the assistance of, a public accountant acting in the capacity of trustee in bankruptcy, receiver or liquidator.
4. FUTURE-ORIENTED FINANCIAL INFORMATION, Section 4250 in Part V of the CPA Canada Handbook – Accounting, sets out standards for general purpose and special purpose future-oriented financial information when presented for external users and includes the following definitions:
 - (a) **Future-oriented financial information** is information about prospective results of operations, financial position and/or cash flows, based on assumptions about future economic conditions and courses of action. Future-oriented financial information is presented as either a forecast or a projection.

- (b) A **forecast** is future-oriented financial information prepared using assumptions all of which reflect the entity's planned courses of action for the period covered given management's judgment as to the most probable set of economic conditions.
- (c) A **projection** is future-oriented financial information prepared using assumptions that reflect the entity's planned courses of action for the period covered given management's judgment as to the most probable set of economic conditions, together with one or more hypotheses that are assumptions that are consistent with the purpose of the information but are not necessarily the most probable in management's judgment.
- (d) **General purpose future-oriented financial information** is future-oriented financial information prepared for external users with whom the entity is not negotiating or dealing directly.
- (e) **Special purpose future-oriented financial information** is future-oriented financial information prepared for external users with whom the entity is negotiating or dealing directly.

NATURE AND TERMS OF ENGAGEMENT

5. An engagement to compile a financial forecast or projection differs from an engagement to compile historical financial statements because of the nature of the subject matter. Historical financial statements are based on historical transactions reflected in the books and records of the entity. In contrast, a financial forecast or projection is based on prospective transactions that reflect assumptions about future economic conditions and courses of action. The inherent subjectivity of assumptions requires that the public accountant possess or obtain a sufficient understanding of the entity and its environment and perform limited procedures to be able to compile a financial forecast or projection. However, the objective of each engagement is to provide a service to those who require assistance in compiling financial information, but who do not require that the public accountant provide assurance concerning such information.
6. Compilation of a financial forecast or projection includes:
 - (a) assembling the financial forecast or projection based on management's assumptions (including hypotheses); 5
 - (b) performing other limited procedures consisting primarily of inquiring about the information supplied to the public accountant and considering whether the financial forecast or projection obviously appears not to be prepared in accordance with the standards in FUTURE-ORIENTED FINANCIAL INFORMATION, Section 4250; and
 - (c) issuing a communication.
7. Because the procedures performed are limited, compilation of a financial forecast or projection does not provide assurance that the financial forecast or projection has been prepared in accordance with the standards established in FUTURE-ORIENTED FINANCIAL INFORMATION, Section 4250, or that the public accountant will become aware of significant matters that might be discovered by more extensive procedures.
8. Since a financial forecast or projection is based on assumptions regarding future events, actual results will vary from those forecast or projected and the variations may be material. Accordingly, the public accountant cannot provide assurance about the achievability of the financial forecast or projection.
9. It is important that the public accountant reach an understanding and agreement with management about the nature and extent of the services to be provided. Such an understanding and agreement would normally include at least the following matters:
 - (a) the public accountant will conduct the engagement in accordance with this Guideline;
 - (b) the public accountant will not express an opinion or any other form of assurance concerning the financial forecast or projection;
 - (c) the financial forecast or projection will be based on information provided by management;
 - (d) the public accountant will have access, as considered necessary, to company documents and records and to outside sources of information used by management in developing the assumptions;
 - (e) management is responsible for the financial forecast or projection and the underlying assumptions;
 - (f) management agrees that the objective is to prepare the financial forecast or projection in accordance with accounting standards set out in the CPA Canada Handbook – Accounting;
 - (g) whether the information presented is to be a financial forecast or projection;
 - (h) the anticipated form of the financial forecast or projection;
 - (i) the time period to be covered by the financial forecast or projection;
 - (j) each page of the financial forecast or projection will be conspicuously marked as being unaudited and cross-referenced to the public accountant's communication;
 - (k) the anticipated form and content of the public accountant's communication;
 - (l) the public accountant has no responsibility to update his or her communication for events and circumstances occurring after the date of that communication; and
 - (m) management will provide the public accountant with an appropriate letter of representation.
10. There may be circumstances that prevent a public accountant from being associated with a compilation of a financial forecast or projection. For example, a public accountant would not accept an engagement to compile a financial forecast

or projection if management did not intend to present the financial forecast or projection in accordance with FUTURE-ORIENTED FINANCIAL INFORMATION, Section 4250. The public accountant should consider whether such circumstances might exist before accepting the engagement.

11. When agreement has been reached, it is highly desirable that it be put in writing to avoid misunderstandings. An engagement letter normally provides the clearest record of agreement reached and its use is preferable to other, less formal, arrangements. An example of an engagement letter is provided as [Appendix A](#).

PROFESSIONAL STANDARDS

12. Standards applicable to engagements to compile a financial forecast or projection are as follows:
 - (a) the services should be performed and the communication should be prepared by a person or persons having adequate technical training and proficiency in compiling future-oriented financial information, and with due care; and
 - (b) the work should be adequately planned and properly executed and, if assistants are employed, they should be properly supervised.

UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT

13. The public accountant should possess or obtain a sufficient understanding of the entity and its environment, including an understanding of the industry and the accounting policies and practices of the industry in which the entity operates, or will operate, to enable him or her to:
 - (a) perform the compilation procedures; and
 - (b) understand the events, transactions and practices that may have a significant effect on the engagement.

The public accountant should focus on areas similar to those suggested in ASSURANCE AND RELATED SERVICES GUIDELINE [AuG-6](#), Examination of a Financial Forecast or Projection Included in a Prospectus or Other Offering Document. However, the knowledge required to compile a financial forecast or projection will usually be less detailed than that required in such an examination.

DOCUMENTATION

14. Matters that in the public accountant's professional judgment are important to support the content of the communication should be documented. A letter, dated as of the date of the public accountant's communication, may be useful to record important representations made by management. An example of a representation letter is provided as [Appendix B](#).

PROCEDURES

15. The procedures required in an engagement to compile a financial forecast or projection are limited and do not include evaluating the support for the assumptions or other information. The purpose of the procedures is to enable the public accountant to compile a financial forecast or projection from information provided by management, not to provide assurance on such information.
16. When compiling a financial forecast or projection, the public accountant should do the following:
 - (a) Assemble the financial forecast or projection from information provided by management. Such information would normally include a list of assumptions and historical financial statements together with accompanying notes.
 - (b) Perform the computations that translate the assumptions into the financial forecast or projection.
 - (c) Inquire whether the accounting policies used are the same as those expected to be used in presenting historical financial statements for the future period or otherwise as agreed to for special purpose future-oriented financial information.
 - (d) Inquire how management developed its assumptions.
 - (e) Consider whether the financial forecast or projection obviously appears not to be prepared in accordance with accounting standards in FUTURE-ORIENTED FINANCIAL INFORMATION, Section 4250. The public accountant would consider whether:
 - (i) there appear to be any obvious omissions or internal inconsistencies in the assumptions and whether the assumptions obviously appear to be inappropriate in the circumstances;
 - (ii) the future-oriented financial information obviously appears to be incorrectly identified as a financial forecast or projection; and
 - (iii) the time period obviously appears to extend beyond the point in time for which the financial forecast or projection can be reasonably estimated.
 - (f) If a significant part of the time period covered by the financial forecast or projection has expired, inquire about the results of operations and significant cash flows, and consider their effect on the financial forecast or projection.
17. If as a result of applying the procedures the public accountant becomes aware that representations or other information received appear to be obviously inappropriate, incomplete, incorrect or otherwise unsatisfactory with the result that he or she believes that the financial forecast or projection is false or misleading, the public accountant should request additional or revised information to complete the financial forecast or projection. If management does not provide the

information requested, the public accountant should not release the financial forecast or projection and should withdraw from the engagement.

COMMUNICATION

18. In an engagement to compile a financial forecast or projection, the public accountant should attach a communication. The communication should be titled "Notice to Reader on the Compilation of a Financial Forecast (or Projection)" and should:
 - (a) identify the financial forecast or projection presented;
 - (b) state the effective date of the assumptions;
 - (c) state that the public accountant compiled the financial forecast or projection from information provided by management;
 - (d) state that the engagement was performed in accordance with the applicable guidance on compilation of a financial forecast or projection set out in the CPA Canada Handbook – Assurance;
 - (e) state that the compilation is limited to presenting, in the form of a financial forecast or projection, information provided by management and does not include evaluating the support for the assumptions or other information underlying the forecast or projection;
 - (f) state that the public accountant does not express an opinion or any other form of assurance on the financial forecast or projection or assumptions;
 - (g) state that since the financial forecast or projection is based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material;
 - (h) state that the public accountant has no responsibility to update his or her communication for events and circumstances occurring after the date of the communication; and
 - (i) disclose the addressee, the name of the public accountant, the date of the communication, and the place of issue.
19. Each page of the financial forecast or projection should be conspicuously marked "Unaudited — see Notice to Reader."
20. The public accountant's communication should be dated no earlier than the date on which the public accountant has completed the compilation, which should not be earlier than the effective date of the assumptions disclosed in the financial forecast or projection. Normally, the public accountant would want to use the same date for his or her communication as that used as the effective date of the assumptions.
21. When the public accountant compiles a financial forecast, it is suggested the communication be worded as follows:

NOTICE TO READER ON THE COMPILATION OF A FINANCIAL FORECAST

To:

I have compiled the financial forecast of consisting of a balance sheet as at [date] and statements of income, retained earnings and cash flows for the [period] then ending using assumptions with an effective date of, and other information provided by management. My engagement was performed in accordance with the applicable guidance on compilation of a financial forecast set out in the CPA Canada Handbook – Assurance.

A compilation is limited to presenting, in the form of a financial forecast, information provided by management and does not include evaluating the support for the assumptions or other information underlying the forecast. Accordingly, I do not express an opinion or any other form of assurance on the financial forecast or assumptions. Further, since this financial forecast is based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. I have no responsibility to update this communication for events and circumstances occurring after the date of this communication.

City(signed) Date PRACTITIONER

22. When the public accountant compiles a financial projection, it is suggested the communication be worded as follows.

NOTICE TO READER ON THE COMPILATION OF A FINANCIAL PROJECTION

To:

I have compiled the financial projection of consisting of a balance sheet as at [date] and statements of income, retained earnings and cash flows for the [period] then ending using assumptions, including the hypothesis set out in Note ..., with an effective date of, and other information provided by management. My engagement was performed in accordance with the applicable guidance on compilation of a financial projection set out in the CPA Canada Handbook – Assurance.

A compilation is limited to presenting, in the form of a financial projection, information provided by management and does not include evaluating the support for the assumptions, including the hypothesis, or other information underlying the projection. Accordingly, I do not express an opinion or any other form of assurance on the financial projection or assumptions, including the hypothesis. Further, since this financial projection is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothesis occurs, and the variations may be material. I have no responsibility to update this communication for events and circumstances occurring after the date of this communication.

City(signed) DatePRACTITIONER

23. When compiling a special purpose financial forecast or projection, the public accountant may wish to indicate in a final paragraph of his or her communication the purpose of the communication or any restrictions on its use, by such words as:

"This communication is intended to be used solely for [indicate specific use] and is only to be referred to or distributed to management of Client Limited or [name of person to whom the communication is addressed]."

APPENDIX A

EXAMPLE OF AN ENGAGEMENT LETTER FOR A FINANCIAL PROJECTION

This example is provided to assist the public accountant who wishes to use an engagement letter as a record of the agreement reached with management to compile future-oriented financial information. This example deals with the compilation of a financial projection. Appropriate amendments should be made to take into account the circumstances of each engagement.

[Addressee]

(The addressee should be a person having the necessary authority to sign on behalf of the company, for example, the president.)

..... Company Limited

Dear

As a result of my conversation with you on [date], I am summarizing my understanding of the terms of my engagement to compile the financial projection consisting of a balance sheet as at [date] and the statements of income, retained earnings and cash flows of Company Limited for the [period] then ending. I understand that these statements together with my communication thereon will be used for

The company's responsibility

The projection will be based on assumptions that management believes are appropriate (i.e., reasonable and supportable assumptions that reflect the most probable set of economic conditions and planned courses of action) and on a hypothesis (i.e., an assumption that is consistent with the purpose of the information but is not necessarily the most probable in management's judgment). If I become aware that the assumptions provided are inappropriate and have not been revised to my satisfaction, I will be unable to complete the engagement and, accordingly, will not issue a communication on the projection. The company agrees that the objective is to prepare the financial projection in accordance with accounting standards set out in the CPA Canada Handbook – Accounting. The company and its officers and directors bear sole responsibility for the assumptions, including the hypothesis, and the projection.

The statements will be prepared using accounting policies the company anticipates will be used for the annual historical financial statements for the time period covered by the projection. Unless otherwise advised, these policies will be consistent with those used in the historical financial statements for [latest financial year].

It is understood that in conducting my engagement, I will have access, as I consider necessary, to company documents and records and to outside sources of information used by management in developing the assumptions (for example, outside specialists consulted by the company). It is also understood that each page of the financial projection will be conspicuously marked "Unaudited — see Notice to Reader." Before releasing my communication on the compilation of the company's financial projection, management will provide me with an appropriate letter of representation.

The compilation of the financial projection and my communication

I will conduct the compilation and will communicate in accordance with the applicable guidance set out in the CPA Canada Handbook – Assurance. A compilation includes assembling the financial projection based on management's assumptions and hypothesis and performing other limited procedures consisting primarily of inquiring about the information supplied and considering whether the financial projection obviously appears not to be prepared in accordance with standards for financial projections set out in the CPA Canada Handbook – Accounting.

Because of my limited involvement, I will not express an opinion, or any other form of assurance, on the financial projection or assumptions, including the hypothesis. Further, since a financial projection is based upon assumptions regarding future events, actual results will vary from the information presented even if the hypothesis occurs, and the variations may be material. I have no responsibility to update my communication for events and circumstances occurring after the date of my communication.

I expect that my communication will be worded as follows:

[See suggested wording of communication in paragraph 22.]

Fees will be determined on the basis of time spent on this engagement. Any disbursements will be added to the billing.

If the services outlined are in accordance with your requirements and if the above terms are acceptable to you, please sign the copy of this letter in the space provided and return it to me.

Yours very truly,

..... PRACTITIONER

The terms of the engagement set out above are as agreed.

..... Company Limited

Per: [Name and title of the addressee]

Date

APPENDIX B

EXAMPLE OF A LETTER OF REPRESENTATION FOR A FINANCIAL PROJECTION

This example is provided to assist the public accountant who wishes to use a letter of representation as a record of important representations made to him or her by management during the course of his or her engagement. The example deals with the compilation of a financial projection. Appropriate amendments should be made to take into account the circumstances of each engagement.

..... Practitioner

Dear

We are writing at your request to confirm our understanding about your engagement to compile a financial projection consisting of a balance sheet as at [date] and the statements of income, retained earnings and cash flows of Company Limited for the [period] then ending.

We confirm, to the best of our knowledge and belief, the following representations made to you during this engagement:

1. All accounting and financial records and related data of the company have been made available to you, and you have been made aware of and given access to outside sources of information where applicable.
2. The assumptions underlying the projection reflect management's judgment as to the most probable set of economic conditions and the company's planned course of action for [period]. These assumptions are supportable and consistent with the plans of the company, and are reflected in the projection. All such assumptions have been disclosed to you.
3. The hypothesis represents plausible circumstances and is consistent with the purpose of the financial projection.
4. The time period does not extend beyond the point in time for which such information can be reasonably estimated.
5. The accounting policies used in the projection are applied on a basis consistent with the accounting policies expected to be used by the company for its historical financial statements for the time period covered by the projection, and used by the company in preparing the historical financial statements for [latest financial year].
6. All information necessary to compile the projection has been disclosed to you and, except as disclosed to you, no events are expected to occur or are pending and no facts have been discovered to date that would have a material effect on this projection, including items of such significance to the company as would require changes in the assumptions or disclosure in the projection.

The financial projection, together with supporting documentation for the principal assumptions, has been reviewed by management. We acknowledge sole responsibility for the financial projection and for the determination and appropriateness of the assumptions, including the hypothesis, used.

Yours very truly,

..... President,

..... Company Limited

Footnotes

1. FUTURE-ORIENTED FINANCIAL INFORMATION, Section 4250, sets out standards for general purpose and special purpose future-oriented financial information when presented for external users. The public accountant may also be engaged to compile future-oriented financial information for other users. In such circumstances, it is desirable that the financial forecast or projection be prepared in accordance with Section 4250.
2. Normally, management is responsible for the future-oriented financial information and the underlying assumptions. In some cases, however, another party may be responsible, for example, a potential buyer in a take-over situation. In such cases, the public accountant would adapt the guidance as appropriate.
3. See also ASSURANCE AND RELATED SERVICES GUIDELINE [AuG-6](#), Examination of a Financial Forecast or Projection Included in a Prospectus or Other Offering Document.

4. In such circumstances, the public accountant's name should not appear on the future-oriented financial information, which should be submitted only to the client. It is desirable that written communications, including transmittal letters and bills for services, clearly set out the services that were performed.
 5. In the remainder of this Guideline, the term "assumption" includes "hypothesis" in the case of a projection.
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