

Implementation Tool for Practitioners

CANADIAN STANDARDS ON ASSURANCE ENGAGEMENTS (CSAE)

MAY 2019

Do You Provide Assurance on a Client's Compliance with an *Agreement, Specified Authority or a Provision Thereof?*

STANDARDS DISCUSSED

CSAE 3530, *Attestation Engagements to Report on Compliance*

CSAE 3531, *Direct Engagements to Report on Compliance*

This *Implementation Tool for Practitioners (Tool)* will assist you with the implementation of CSAE 3530 / 3531. It provides guidance to you, the practitioner, when you are asked to report on compliance with an agreement, specified authority or a provision thereof. The *Tool* provides an overview of the steps required to complete a compliance engagement. You will need to adapt the *Tool* to the specific circumstances of each engagement. This *Tool* does not replace the need to read the entire applicable standard, including the application and other explanatory material.

This *Tool* is the third document in a series issued by CPA Canada related to CSAE 3530 / 3531. The following are the previously released documents:

- *Audit & Assurance Alert for Practitioners (Alert)* was prepared to help prepare you and your firm for the transition to CSAE 3530 / 3531.
- *Briefing for Management and Third Parties (Briefing)* assists in preparing you for any discussions with your client.

The links to these documents are included below under "[Additional Resources](#)".

The primary objective of this *Tool* is to supplement the *Alert* and the *Briefing* to assist you with the **implementation of** CSAE 3530 / 3531 for a particular compliance reporting engagement.

Effective Date

CSAE 3530 / 3531 are effective for compliance engagements where the *compliance report is dated on or after April 1, 2019*, with early application permitted.

Understanding the Standards

The new standards applicable to compliance engagements are as follows:

CSAE 3530, *Attestation Engagements to Report on Compliance*

This standard deals with special considerations in the application of CSAE 3000, *Attestation Engagements Other than Audits or Reviews of Historical Financial Statements* to engagements to report on management's statement of an entity's compliance with agreements, specified authorities, or a provision thereof.

Applicable to both reasonable assurance (audit) and limited assurance (review) engagements.

CSAE 3531, *Direct Engagements to Report on Compliance*

This standard deals with special considerations in the application of CSAE 3001, *Direct Engagements to Report on an Entity's Compliance with Agreements, Specified Authorities, or a Provision Thereof*.

Applicable to both reasonable assurance (audit) and limited assurance (review) engagements.

The first step in understanding how to apply the standards is to read the full standards, (CSAE 3530 / 3531 and CSAE 3000 / 3001), including the application guidance.



QUESTION

What are some of the terms used in CSAE 3530 / 3531 important to my understanding the requirements?

[Appendix B](#) of this *Tool* includes a comprehensive list of the key terms from CSAE 3530 / 3531 to help you implement the standards and obtain the most from this *Tool*. Below are some terms that may be new to you:

Criteria: The benchmarks used to measure or evaluate the entity's compliance with specified requirements.

Significant interpretation: An interpretation of the specified requirements necessary to enable you to conduct the engagement on management's statement of the entity's compliance under CSAE 3530 for an attestation engagement or to enable you to conduct the engagement on the entity's compliance under CSAE 3531 for a direct engagement.

Management's statement of compliance: For an attestation engagement, the outcome of management's evaluation of the entity's compliance with the specified requirements, provided to the user of your report, including an explicit written statement of compliance. Management's statement of compliance is the subject matter information in an attestation engagement to report on compliance.

REMINDER *Attestation engagements are those in which you report on management's explicit written statement of an entity's compliance with specified requirements. Reasonable or limited assurance can be provided as described in CSAE 3530.*

Non-compliance: Under CSAE 3530 for an attestation compliance engagement, non-compliance is defined as an instance of a failure by the entity to meet a specified requirement in whole or in part. Under CSAE 3531 for direct engagements, non-compliance is defined as a deviation from the specified requirements.

As indicated above, the engagement can be either an attestation or a direct engagement; you can be engaged to provide reasonable or limited assurance. The four potential types of engagement that can be performed in accordance with CSAE 3530 / 3531 are as follows:

1. Attestation Engagement – Reasonable Assurance (CSAE 3530)
2. Attestation Engagement – Limited Assurance (CSAE 3530)
3. Direct Engagement – Reasonable Assurance (CSAE 3531)
4. Direct Engagement – Limited Assurance (CSAE 3531)

This *Tool* will use the term “compliance engagements” to refer to the four possible engagements addressed in CSAE 3530 / 3531.



QUESTION

Of the four types of engagements under CSAE 3530 / 3531, which will be the most commonly requested?

It is difficult to predict which engagement will become the most common. The request or requirement generally originates from a third party; it may take some time to determine which engagement will most commonly meet their needs.

One common third-party request is from a banker (lender) asking for information related to covenants included in the lending agreement. The banker may obtain the information directly from your client without any involvement from you. However, if assurance is requested on the compliance with the covenants, two questions will need to be addressed:

1. Does the banker want limited or reasonable assurance?
2. Does the banker want you to report on management's statement on compliance with the covenants (CSAE 3530) or do they want you to report directly (CSAE 3531)?

Another common third-party request is from a funder to a Not-for-profit Organization (NFPO) such as a government agency or private-sector funder. The funder may want information related to any restrictions. An example of such a restriction could be related to the amount or nature of the spending of the funding. If assurance is requested on the compliance with the restrictions, the same two questions above would need to be addressed:

1. Does the funder want limited or reasonable assurance?
2. Does the funder want you to report on management's statement on compliance with the restriction in the funding agreement (CSAE 3530) or do they want you to report directly (CSAE 3531)?

The [Briefing](#) was issued to encourage discussion early in the process of applying these standards so that all parties may understand compliance engagements and the various reports available under these new standards.



QUESTION

Why do the standards refer to “reasonable assurance engagement” and “limited assurance engagement” rather than to audit and review engagements?

CSAE 3000 / 3001 uses the terms “reasonable assurance engagement” and “limited assurance engagement” (i.e., not “audit” or “review”). Paragraphs C12.C(a)(i)a of CSAE 3000 and 14(a)(i)a of CSAE 3001 acknowledge that a reasonable assurance engagement may be referred to as an audit engagement, and that a limited assurance engagement may be referred to as a review engagement. However, the terms used throughout CSAE 3000 / 3001, as well as other standards for assurance engagements other than audits or review of historical financial information (collectively referred to as “the 3000 series”) are “reasonable assurance engagements” and “limited assurance engagements.” Further, in Canada, the terms “audit” and “review” are more commonly associated with engagements related to historical financial information. There is a risk that users may be confused if the terms “audit” or “review” were to be used when reporting in accordance with standards in the 3000 series. The terms “reasonable assurance” and “limited assurance” draw a better distinction between the different engagements and a clearer recognition that the assurance obtained is dependent on the subject matter.

Therefore, the terms used in CSAE 3530 / 3531 are consistent with those used in CSAE 3000 / 3001 and do not use the terms “audit” or “review.” (See [Basis for Conclusions](#) document paragraphs 10–13.)

Which Standard Is Applicable?

Requests for compliance engagements do not always explicitly define which type of engagement is being requested. The scope of CSAE 3530 / 3531 should be considered when determining the nature of the engagement. It can be difficult to determine at times which is the applicable standard for a request.

[Appendix A](#) of this *Tool* provides a decision tree to help you when you have been asked to perform an engagement and you want to determine the appropriate standard to apply.

**QUESTION****Can the compliance engagement be related to a non-financial matter?**

Yes. The subject matter in a compliance engagement may be either financial or non-financial in nature. Examples of compliance engagements related to non-financial matters could include compliance with:

- requirements related to the number of members in a funded organization as defined in a union agreement
- number of students enrolled in full-time study as defined in a government funding agreement
- percentage of green space in a real estate development as defined by the municipal zoning regulation
- non-discriminatory hiring practices as defined in a government assistance agreement
- remuneration policies for a government agency as defined in legislation
- work and safety policies as defined by the regulations.

REMINDER For the engagement to be a compliance engagement under CSAE 3530 / 3531, assurance is to be provided on compliance with an agreement, specified authority or a provision thereof. If the request from the third party is not related to compliance, it may be possible to meet the request under another standard. (See [Appendix A](#) of this *Tool* for a decision tree to help with this assessment.)

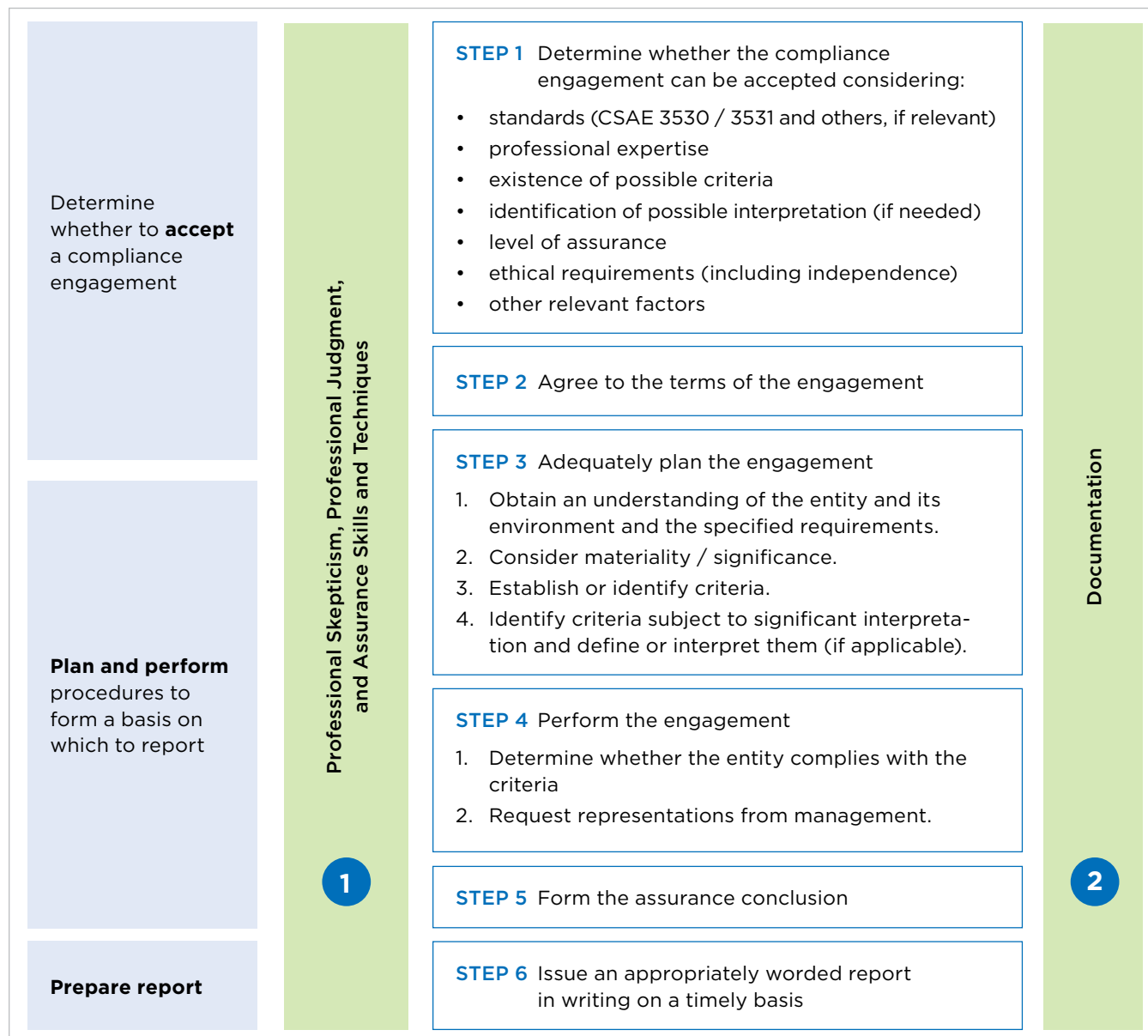
Using This Implementation Tool

As mentioned, this *Tool* will help you understand the issues related to the implementation of CSAE 3530 / 3531. [Figure 1](#) summarizes the requirements of CSAE 3530 / 3531 along with any relevant requirements from CSAE 3000 / 3001 and the related completion of the engagement into the following three main components:

1. Determine whether to accept an attestation or direct compliance engagement.
2. Plan and perform procedures to form a basis on which to report.
3. Report in accordance with CSAE 3530 / 3531.

There are many steps involved in performing and completing engagements under CSAE 3530 / 3531. This *Tool* includes a one-page diagram ([Figure 1](#)) showing the main steps required. It is easily detachable and useful as a reminder.

FIGURE 1



1 Professional judgment and professional skepticism are defined in CSAE 3000:

Professional judgment: The application of relevant training, knowledge and experience, within the context provided by assurance and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement.

Professional skepticism: An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement, and a critical assessment of evidence.

Other key terms applicable to compliance engagements are included in [Appendix B](#) of this *Tool*.

2 [Documentation](#) is discussed later in this *Tool*.

Step 1: Determine Whether the Compliance Engagement Can be Accepted

(See paragraphs CSAE 3530.20–CSAE 3530.21 and CSAE 3000.21–CSAE 3000.30 / CSAE 3531.22–CSAE 3531.23 and CSAE 3001.23–CSAE 3001.34.)

Given the variety of requests from third parties, it is important to determine whether the engagement can be accepted or not.

Risks at the acceptance phase

You risk accepting engagements:

- for which there are no suitable criteria
- which require significant interpretations and you are unable to develop suitable interpretations or obtain management acknowledgment that the interpretation is suitable
- for which you do not have or cannot obtain the appropriate expertise.

You can begin to address these risks by considering the answers to the following questions:

- Do the specified requirements set out applicable criteria or can criteria be developed?
- Are significant interpretations required and can they be developed?
- Will management acknowledge the suitability of any interpretations?
- Can you build a team with relevant expertise?

In addition, it is important to keep the preconditions in CSAE 3000 / 3001 in mind, such as whether the underlying subject matter is appropriate and the criteria are suitable. (See CSAE 3000.24–CSAE 3000.25 and CSAE 3001.26–CSAE 3001.27 for more details on the preconditions for compliance engagements).



QUESTION

How do I know whether the request is outside the engagement team's area of expertise?

Professional judgment is used to decide whether the engagement team has the expertise to accept the engagement. For some requests, the team may not have the necessary expertise. It may be possible to use an expert and add team members, if necessary, but with caution. Examples include:

If the request is to report on the quality of the drinking water at the client's premises in accordance with legislated standards, such an engagement could be accepted if a qualified expert or process could be relied upon.

If the request is to report on handling of hazardous waste at a storage facility in accordance with legislated standards, such an engagement could be accepted if the identification of hazardous waste can be determined by a qualified expert. This expert would know the relevant legislation and be able to identify any hazardous waste.

**QUESTION****Can I complete a compliance engagement based on a request from a lender regarding compliance with solvency criteria?**

No. It is not generally acceptable to complete a compliance engagement on such matters.

Refer to Assurance and Related Services Guideline AuG-4, *Services on Matters Relating to Solvency*. This Guideline addresses situations where you are being requested to provide assurance to lenders (i.e., solvency letters) on a corporate client's ability to pay its liabilities and the realizable value of its assets. The general conclusion of this Guideline is that assurance on matters relating to solvency is not recommended.

**QUESTION****If the request requires an electronic submission, does that mean I cannot accept a compliance engagement?**

No. An electronic submission does not preclude the engagement from being accepted under CSAE 3530 / 3531 as long as there is a method to attach or include the information required under the standards.

Sometimes the submission of information can be on the third party's website or in a locked form (PDF version or Excel workbook), but a report as specified under CSAE 3530 cannot be attached directly or management is unable to add the written statement of compliance, needed in an attestation engagement.

In these circumstances, it is important to determine whether the third party will accept a PDF printed or scanned copy so the report and management's written statement of compliance can be attached to the electronic submission. If not, the engagement cannot be accepted under CSAE 3530.

In some cases, the prescribed form may be designed in such a way that management is unable to add its written statement of compliance. For example, the third party may require management to submit information electronically, and management is unable to modify the form. In such cases, you may not be able to accept an attestation engagement under CSAE 3530 to report on management's statement of compliance, but you may be able to undertake a direct engagement to report on compliance under CSAE 3531 (CSAE 3530.A10).

Step 2: Agree to the Terms of the Engagement

A written acknowledgment in the form of an engagement letter is the most appropriate way to document a mutual understanding of the respective responsibilities of you and management in compliance engagements.

Because, in some cases, the engaging party may be a third party and not the entity's management, the engagement letter could be between the third party and the practitioner and would likely include permission to access information in co-operation with the entity's management.

**QUESTION**

Do I have to prepare a separate engagement letter for each compliance engagement? Can I amend the engagement letter for the audit or review of annual financial statements, if completed (i.e., a combined engagement letter)?

Whether to prepare a separate engagement letter for each compliance engagement or to add to an existing engagement letter is a matter of professional judgment. Factors to consider include:

- complexity of the engagement(s) (more complex engagements may warrant a separate engagement letter)
- ability for management (or other engaging party) to understand the nature of the engagement. A separate engagement letter helps distinguish the compliance engagement from other engagements.

Because each compliance engagement is unique, the standards do not include a sample engagement letter. In addition, since there are different types of compliance engagements (attestation / direct) and different levels of assurance (reasonable / limited), the explanation of management's and your own responsibilities are specific to the engagement circumstances.

Excerpts for some possible terms for an engagement under CSAE 3530 / 3531 are included in [Appendix C](#). The terms of a specific engagement are dependent on the specific request.

Step 3: Adequately Plan the Engagement

The best way to obtain an understanding of the request and to begin planning the engagement is to read the relevant document(s), if any, which explains the request from the third party. This may include legislative or regulatory material as well as a contract, letter or electronic information. Request this information from your client or the third party or ask them to direct you to the appropriate website, if applicable. It is important to read such documents to understand the compliance engagement. This may not require a complete reading of all materials if the compliance aspect is sufficiently clear in an identifiable component of a larger document.

Planning and obtaining an understanding will also allow you to establish or identify the criteria you may need to complete the compliance engagement and to determine whether any significant interpretations will be necessary. It is important to anticipate significant interpretations early so you can allow sufficient time to discuss any such interpretations with the third party if necessary.

Understanding the entity, its environment and the specified requirements

The necessary procedures to obtain an understanding of the entity and its environment would not be that different from those in other assurance engagements. They would, however, have to be sufficient to be able to identify areas / risks of non-compliance with the specified requirements.

This *Tool* has used the requirement to obtain an understanding of the entity and its environment to illustrate how to read the standards when two levels of assurance are included. Below is an example of differences in the standards between requirements for limited vs. reasonable assurance engagements, as illustrated for CSAE 3530 with differences highlighted:

Limited Assurance	Reasonable Assurance
<p>CSAE 3530.23L. The practitioner shall obtain an understanding of the entity and its environment and the specified requirements, sufficient to:</p> <p>(a) Enable the practitioner to identify areas where material non-compliance with the specified requirements is likely to arise; and</p> <p>(b) Provide a basis for designing and performing procedures to address the areas identified in paragraph 23L(a) and to obtain limited assurance to support the practitioner’s conclusion. (Ref: Para. A18–A20, A24)</p>	<p>CSAE 3530.23R. The practitioner shall obtain an understanding of the entity and its environment and the specified requirements, sufficient to:</p> <p>(a) Enable the practitioner to identify and assess the risks of material non-compliance with the specified requirements; and</p> <p>(b) Provide a basis for designing and performing procedures to respond to the assessed risks and to obtain reasonable assurance to support the practitioner’s conclusion. (Ref: Para. A16–A20, A24)</p>

Note: The paragraphs are presented in columnar format with the same paragraph number, but designated as “L” for Limited Assurance (Review), and “R” for Reasonable Assurance (Audit).

Internal controls

An entity’s internal control to manage the risk of non-compliance with any specified requirements under an agreement, specified authority or a provision thereof is only part of the overall internal control processes. In addition, an entity may have controls over the preparation of the subject matter information relevant to the engagement. The internal controls will vary based on the nature, extent and complexity of the specified requirements.

Your understanding of the controls is part of the understanding of the entity and its environment and will enable you to identify areas / risks of non-compliance and create a basis for designing and performing procedures.

Under all compliance engagements, inquiries about how management measures and evaluates the entity’s compliance with the specified agreements would be completed. For reasonable assurance engagements, either attestation or direct, the understanding of internal controls is more detailed and in greater depth.

Generally, for limited assurance, the procedures related to internal controls would primarily involve inquiry and analysis, whereas for reasonable assurance there may be a mixture of procedures. The procedures for reasonable assurance will typically be more extensive and varied and could include testing of controls.

Materiality

(See CSAE 3530.22 and CSAE 3530 A13–A15 / CSAE 3531.24 and CSAE 3531 A11–A13.)

Note: For direct engagements, the term “significance” is used rather than materiality, but the requirements and application guidance are similar. The terminology is different since CSAE 3531 follows CSAE 3001, where the term significance is also used in place of materiality because significance is a concept more frequently used in direct engagements.

You will consider materiality / significance in two instances:

1. when determining the nature, timing and extent of procedures
2. when evaluating whether an instance of non-compliance is material / significant.

Factors that may affect your determination of what is material / significant include:

- nature of the specified requirements (e.g., some compliance engagements may involve financial and / or non-financial criteria and some such as environmental compliance may not be quantifiable in monetary terms)
- qualitative considerations, including the needs / expectations / interests of the report’s users
- relative magnitude of instances of detected or suspected non-compliance.

A matter of
professional judgment!

Consider BOTH
quantitative and
qualitative factors!

REMINDER Matters may be encountered during the course of the engagement that require reconsideration of materiality / significance so materiality / significance is set at the planning stage, but may need to be revised at any point in the engagement. In addition, when evaluating or concluding whether any non-compliance is material / significant, qualitative factors can be important. For example, there may be zero tolerance for non-compliance if the matters relate to a sensitive political or public issue.

As mentioned, there is no substantive difference between the concepts of materiality and significance. The approach to materiality / significance is the same for both a reasonable or limited assurance engagement.

Establish or identify criteria and those subject to significant interpretation

In some cases, criteria may not be specified by the agreement or specified authorities. Management may also not have developed criteria when measuring or evaluating the entity’s compliance. In such cases, you may need to develop these criteria yourself.

To determine the criteria, you need to be able to answer the question: “What are the criteria in accordance with?” For example, in the case of an audit or review of financial statements, the criteria could be based on a financial reporting framework included in the *CPA Canada Handbook – Accounting* (i.e., GAAP) or a financial reporting framework specified in an agreement. On the other hand, the criteria for a compliance engagement may be included in law, contract or regulation. The criteria may

be clearly defined or may require some or even significant interpretation. Items subject to significant interpretation are to be identified so you can clearly articulate them.



QUESTION

Do I have to assess internal controls? Do I have to complete a walkthrough?

Reasonable Assurance Engagements (Audit)

Yes. For reasonable assurance engagements, obtain and complete your understanding and assessment of internal controls. This is an area where the interaction of CSAE 3530 / 3531 and the umbrella standards CSAE 3000 / 3001 is important. CSAE 3000 / 3001 requires you to obtain an understanding of internal control over the preparation of the subject matter information **relevant to the engagement**. In addition, obtain an understanding of the entity's process for ensuring compliance, including controls in place and whether those controls are preventive or detective, manual or automated.

This understanding includes evaluating the design of those controls pertinent to the objective of the engagement and, if relevant, determining whether they have been implemented.

Understanding internal control over the subject matter information will help you identify the types of misstatement and the factors that affect the risks of material misstatements in the subject matter information. You are required to perform procedures and inquiry of the responsible parties in order to **evaluate the design of relevant controls and determine whether they have been implemented**.

Professional judgment is needed to determine which controls are relevant in the engagement circumstances and how this understanding will be obtained.

In response to the second question, a walkthrough is generally recognized as an effective way of performing risk assessment procedures to obtain evidence about the design and implementation of controls. A walkthrough does not provide evidence that a control relevant to the engagement is operating effectively but can be useful to understand and document the internal controls.

(See CSAE 3530.17(c) / CSAE 3531.19(c) for definitions, CSAE 3530.23R / CSAE 3531.25R for the understanding of the entity and CSAE 3530.A17 / CSAE 3531.A15 which links back to CSAE 3000.47R / CSAE 3001.52R.)

Limited Assurance Engagements (Review)

The expectation is lower for a limited assurance engagement. Consideration of the process used to prepare the subject matter information will assist you in designing and performing procedures that address the areas where a material misstatement is likely to arise. Professional judgment determines which aspects of the process are relevant to an engagement; the procedures may be limited to making inquiries of the appropriate party about those aspects.

In all compliance engagements, you are required to obtain a written representation from management that acknowledges management's responsibility for such internal control over compliance with the specified requirements as management determines is necessary.



QUESTION

What is a “significant” interpretation?

[Appendix B](#) of this *Tool* includes the definition of “significant interpretation” as it applies to CSAE 3530 / 3531, but interpretation itself is a matter of professional judgment. In general terms, there is a significant interpretation if the criteria or terminology used are not fully specified in the request, legislation etc., and you feel that different people would likely reach different conclusions in their interpretations.

It is not a requirement that you discuss or reach an agreement with the third party. Having a discussion on the matter can be considered if it would help ensure the needs of the third party are met.

(See CSAE 3530.26–CSAE 3530.27 and CSAE 3531.28–CSAE 3531.29.)



QUESTION

How will I know whether significant interpretations will be needed?

It is a matter of professional judgment. Some requirements will need more interpretations than others. For example, the floor-plan financing agreement for a car dealership may require:

1. *Management must complete a full inventory count on the year end.* The criterion is relatively straightforward and binary in nature (i.e., yes or no: the inventory count has or has not been done).
VS.
2. *Management must count inventory on a regular basis.* More interpretation is necessary with this requirement because the term “regular basis” is vague. The significant interpretation is required to be **documented** in the working papers and included in the report. It could mean: monthly, semi-annually, annually, wall-to-wall count or cycle count.



QUESTION

What can I do if the applicable criteria or underlying subject matter are found to be unsuitable after the engagement has been accepted?

In an **attestation engagement**, a party other than you decides on the applicable criteria to be used in preparing the subject matter information. You determine whether the applicable criteria are suitable for the engagement circumstances. If it is discovered after the engagement has been accepted that some or all of the applicable criteria are unsuitable or some or all of the underlying subject matter is not appropriate for an assurance engagement, you are required to consider withdrawing from the engagement, if withdrawal is possible under applicable law or regulation. If you continue with the engagement, you must express a qualified or adverse conclusion, or disclaimer of conclusion, as appropriate in the circumstances (see CSAE 3000.43).

In a **direct engagement**, you decide on the applicable criteria and seek agreement from the responsible party that the criteria are indeed suitable. Therefore, if the applicable criteria are discovered to be unsuitable after the engagement has been accepted, rather than withdrawing from the engagement, you are required to consider revising the criteria as necessary and seek acknowledgment from the responsible party on the suitability of the revised criteria. When such an acknowledgment cannot be obtained, you are required to consider the effect, if any, on your work and report (see CSAE 3001.47).

Furthermore, in a direct engagement, if it is discovered after the engagement has been accepted that some or all of the underlying subject matter is not appropriate for an assurance engagement; you are required to consider withdrawing from the engagement, if withdrawal is possible under applicable law or regulation. If you continue with the engagement, you are required to express a qualified conclusion or disclaimer of conclusion, as appropriate in the circumstances (see CSAE 3001.48).

Step 4: Perform the Engagement

(See paragraphs CSAE 3530.28–CSAE 3530.31 / CSAE 3531.30–CSAE 3531.33.)

The nature and extent of procedures to be performed in order to provide a basis to report is a matter of professional judgment. Procedures would be designed for the specific engagement. At a minimum the following would be performed:

1. Based on the identified areas / risks of where non-compliance could arise, design procedures to address the areas / risks identified.
2. Obtain sufficient and appropriate evidence to support the conclusion / opinion, including management representations.

A matter of
professional judgment!

In completing a compliance engagement, you cannot design the procedures until you understand the request, have identified criteria or determined a need to establish criteria and make significant interpretations.

The procedures you will perform are a matter of professional judgment and will be specific to the entity and the request. Example of possible procedures for a specific engagement are provided later in this *Tool*.

The goal is to design the procedures to obtain sufficient appropriate evidence to support a conclusion / opinion!



QUESTION

How will the evidence gathering process differ for a limited vs. reasonable assurance engagement?

Generally, for limited assurance, the procedures would primarily be inquiry and analysis, whereas for reasonable assurance there may be a mixture of procedures including reliance on internal controls. The procedures for reasonable assurance will typically be more extensive and varied, and include more detailed testing.



QUESTION

Do I always have to obtain written representation from management?

Yes. In both levels of assurance and in both attestation and direct engagements, a representation from management is required.

In fact, if management does not provide the requested representations, you are required to consider the reporting implications or even to withdraw from the engagement.

In addition to the written representations required by CSAE 3000 / 3001, requested representations for an engagement under CSAE 3530 / 3531 include:

- acknowledging management's responsibility for preparing the statement of the entity's compliance with the specified requirements [CSAE 3530 only]
- acknowledging management's responsibility to comply with the specified requirements of the standard [CSAE 3531 only]
- acknowledging management's responsibility for such internal control over compliance with the specified requirements as management determines is necessary
- stating whether management has performed an evaluation of the entity's compliance with the specified requirements
- stating that the criteria used in the engagement are suitable [CSAE 3531 only]
- stating (when applicable) management's responsibility for significant interpretation of the specified requirements and management's acknowledgment that the interpretation is suitable
- stating whether the entity is in compliance with the specified requirements [CSAE 3530 only]
- stating whether management has disclosed any communications from legislative authorities or counterparties to agreements concerning possible non-compliance with the specified requirements, including communications received between the end of the period addressed in the written statement and the date of your report
- stating that management has disclosed any known non-compliance with the specified requirements occurring during the period or subsequent to the period for which, or date as of which, management selects to make its statement.

As noted under a direct engagement, management is **not required** to provide a written statement of compliance on whether the entity did or did not comply, as part of the compliance report.

**QUESTION**

If I have accepted an engagement under CSAE 3530 and realize that I cannot complete the engagement, could I perform the engagement under CSAE 3531 instead?

There is nothing in the standards that prevents this, but it would be most appropriate to confirm the terms of the different engagement in a new engagement letter. It would have to be clear that the new report will meet the needs of the party requesting the compliance report.

For example, the agreement of a governmental program requires the entity to create a minimum number of jobs annually for a specific project. If the entity makes the statement that it has created the minimum number of jobs, then you would report in accordance with CSAE 3530. However, without a statement from management or if the entity gives you all the data and asks you to determine whether the entity created the minimum number of jobs required (assuming the criteria for job creation are clear), this is a different engagement (i.e., not an engagement under CSAE 3530).

Instead, you could perform the engagement under CSAE 3531, which would result in reporting whether the entity created the required minimum number of jobs. As noted, a new engagement letter would be required and you would need to consider whether the third party would accept a direct engagement.

In addition, if you are performing all the calculations as well as preparing all the information and the compliance report, be aware of the potential independence threat created by this self-review. It is important that you are satisfied with the reason management will not provide the statement of compliance, and that they will be willing to complete the representations required under CSAE 3531.

Example 1: Requesting reasonable assurance that administrative costs related to spending on medical research comply with a provincial funding agreement

Assume an attestation engagement under CSAE 3530, with reasonable assurance being provided. Assume also that management has prepared a schedule of administrative costs and that they say they are in compliance with the funding agreement.

In this example, the data will be both financial and non-financial in nature. Management has prepared a listing of expenditures and information on the nature of the expenditures. You are required to determine materiality level(s) to be used for this engagement, considering both the quantitative and qualitative aspects of the requirements specified in the funding agreement. Due to the nature of the financial data, materiality level(s) for this engagement could be significantly lower than those that would be used in an audit of a full set of financial statements.

REQUEST FROM PROVINCIAL GOVERNMENT

Request

Compliance of the nature and amounts of administrative costs in accordance with a funding agreement

Criteria (i.e., With what is it in accordance?)

Definition used by the funding agreement to define the nature of administrative costs

Relevant questions can include:

- Are administrative costs clearly defined in the funding agreement? If not, then costs are open to interpretation.
- How does management define administrative costs?

Potential procedures to obtain sufficient appropriate evidence*

Read the provincial funding agreement to obtain an understanding regarding the allowable nature and amounts of administrative costs, and then establish the criteria and any areas needing interpretation.

Obtain information / data on administrative costs from management.

Inquire of management which definitions and interpretations, if any, they have used and how internal reporting systems have identified and applied the definitions and interpretations to the data.

Understand the process / controls over the preparation of the schedule of administrative costs. How does the entity make sure all allowable administrative costs are captured and measured in the accounts / listing provided by management?

If you intend to rely on internal controls, obtain sufficient appropriate evidence of their operating effectiveness through, for example:

- inquiries of the entity's personnel about activities undertaken to meet the specified requirements
- inspection of sample records or documents related to activities undertaken to meet the specified requirements.

Examine the information and related evidence for any unusual matters based on your knowledge of the entity and the funding agreement.

Select a sample of transactions from the accounting records supporting the schedule and perform substantive procedures to ensure, when appropriate, their:

- occurrence, completeness, accuracy, cutoff, classification and presentation
- compliance with the funding agreement regarding the nature of eligible costs.

If you have completed an audit or review of the financial statements, you could consider whether some assurance can be taken from the relevant information / evidence gathered in the related engagement. For example, did you complete any analytical / substantive procedures or tests of controls on administrative costs that can provide some assurance for the compliance engagement?

Perform additional analysis, test of controls and / or substantive tests of details in line with the materiality level determined for the compliance engagement. It is not unusual for the information underlying the compliance engagement to be a subset of the information included in the engagement on the entity's financial statements as a whole. The level of detail or number of transactions tested may need to be increased due to the lower materiality of the compliance engagement.

Re-perform management's calculation / determination of compliance.

Obtain written representation from management on the breakdown of the administrative costs and the controls in place.

*The extent of procedures to be completed depends on professional judgment and the level of assurance. The extent of procedures may also be affected by the responses to the questions asked and the information received. This list of procedures is not exhaustive nor does it imply that all procedures are required in a particular situation. The above procedures are examples that could be part of the procedures appropriate for reasonable assurance.



QUESTION

How do I decide the appropriate mix of procedures? (or “When do I know I have done enough work?”)

This is a matter of professional judgment. It is important to perform the procedures you consider necessary to form a basis for the report. You may consider the following factors:

- nature of the engagement and level of assurance to be provided
- how you have exercised due care
- what you believe other practitioners would think is appropriate in the circumstances
- your awareness of any false or misleading information presented (skepticism)
- completion of a “stand-back assessment”
- consideration of whether the procedures completed will meet the expectations of the third party and allow you to form a basis for your report.

Step 5: Form the Assurance Conclusion

(See CSAE 3530.32–CSAE 3530.34 / CSAE 3531.34–CSAE 3531.36.)

Form a conclusion

To form a conclusion:

- Evaluate the sufficiency and appropriateness of the evidence obtained and determine the need to perform additional procedures sufficient to enable you to form a conclusion.
- Determine any non-compliance.
- If you become aware of a matter that leads you to question whether material non-compliance exists, perform additional procedures.
- Conclude on management’s statement of the entity’s compliance (in an attestation engagement) or on the entity’s compliance (in a direct engagement).
- Conclude on appropriate reporting when the entity is not in compliance with all requirements.

A matter of
professional judgment!

The conclusion leads to the determination of the appropriate report in Step 6. Professional judgment is needed to determine how to report. The following examples are provided:

CSAE 3530.A35 In some cases, the entity has complied with the specified requirements, but management's statement is misstated. For example, in the case of a ratio that is required to be above 2.0:1, management may state that the entity's ratio is 3.0:1. However, the practitioner has determined the ratio to be 2.1:1. In such cases, the practitioner uses professional judgment to determine how to report. This may include considering the potential impact on users and whether the information is false or misleading.

CSAE 3530.A23 Circumstances may arise when there is a change in criteria or in a significant interpretation from that used in an immediately preceding engagement to report on management's statement of an entity's compliance with the specified requirements. If such a change has been appropriately applied, and if such a change is adequately disclosed in management's statement of compliance, this change does not give rise to a need to express a modified opinion.

When either management's statement is misstated (CSAE 3530) or the entity is not in compliance (CSAE 3531), considerations would include the:

- need to assess each situation depending on the circumstances, using professional judgment
- possibility of including some details in the Other Matter paragraph without modifying the conclusion
- need to communicate to management as soon as practicable all instances of material non-compliance that have come to your attention.

Step 6: Issue an Appropriately Worded Report in Writing on a Timely Basis

(See CSAE 3530.35–CSAE 3530.38 / CSAE 3531.37–CSAE 3531.40.)

Illustrations of reports are included in the standards as follows:

CSAE 3530 – Attestation	CSAE 3531 – Direct
A practitioner's reasonable assurance report on management's statement that the entity complied with specified requirements established in a funding agreement . (See Illustration 1 of CSAE 3530)	A practitioner's reasonable assurance report on the entity's compliance with specified requirements established in a funding agreement . (See Illustration 1 of CSAE 3531)
A practitioner's limited assurance report on management's statement that the entity complied with specified requirements established in a lending agreement . (See Illustration 2 of CSAE 3530)	A practitioner's limited assurance report on an entity's compliance with specified requirements established in a lending agreement . (See Illustration 2 of CSAE 3531)

**QUESTION****Who should be the addressee in a compliance report?**

Normally the compliance report is addressed to the entity's management as the engaging party but in some cases to a third party. The addressee identifies the party or parties to whom the report on compliance is directed.

The addressee needs to be determined and agreed to at the acceptance stage.

Modified conclusions / opinions

The following table provides a summary of the possible modifications that may be needed:

Modified Conclusions / Opinions under CSAE 3530 / 3531	
Findings	Conclusion / Opinion to express
for attestation compliance engagements under CSAE 3530 and direct reporting compliance engagements under CSAE 3531, non-compliance by the entity with the specified requirements (in all material / significant respects)	qualified (or adverse if pervasive)
for attestation compliance engagements under CSAE 3530, management's statement is materially misstated	qualified (or adverse if pervasive)
scope limitation	qualify (or disclaim)

Note: CSAE 3000 / 3001 establishes the requirements and provides guidance regarding the issuance of modified conclusions. (See CSAE 3530.37–CSAE 3530.38 (and A53–A56) for attestation engagements, and CSAE 3531.39–CSAE 3531.40 (and A49–51) for direct engagements.)

**QUESTION**

In an attestation engagement, what are the reporting implications if the entity has not met the compliance requirements, and management accurately reflects this in its statement?

It is possible that you may come across a situation where the entity has not met the compliance requirements, and management accurately reflects this in its statement (i.e., management may say “we have not complied” in their statement).

In an attestation engagement, you are required to refer to management’s statement in your opinion / conclusion. In this case, you agree with management. But if you say “management’s statement is fairly stated,” the reader may misinterpret this as indicating that the company complied.

For this reason, reporting in these cases is different. You cannot simply issue an unqualified opinion and do nothing else. CSAE 3530 and CSAE 3000 require you to issue an unqualified opinion *and* include an Emphasis of Matter paragraph to draw the reader’s attention to management’s statement.

For example, you may include the following:

“Without modifying our opinion, we draw attention to management’s statement of ABC Company’s compliance, which states that the Company is not in compliance with the specified requirements.”

(See CSAE 3530.A56.)

[Appendix D](#) of this *Tool* includes an overview of the differences between a report under the existing standards (Section 5815), with the report for a similar engagement under CSAE 3531. In both cases, the report provides reasonable assurance.

Documentation

REFERENCE IN [FIGURE 1](#)

2 Documentation

The extent of documentation is ultimately a matter of professional judgment.

However, CSAE 3000 / 3001 requires the documentation be sufficient and appropriate to enable an experienced practitioner who has had no previous connection with the engagement to be able to understand the following:

- nature, timing and extent of the procedures performed to comply with CSAE 3000 / 3530 or CSAE 3001 / 3531 and applicable legal and regulatory requirements, the results thereof and evidence obtained
- significant matters arising during the engagement, the conclusions reached, and significant professional judgments made in reaching those conclusions.

Examples of documentation, when appropriate, include the following:

- copy of the practitioner's report
- third-party requirement or at least a reference to it (i.e., the letter, agreement, contract, prescribed form, etc.)
- written terms of engagement
- significant interpretations made during the course of the engagement
- criteria established by the practitioner in planning and performing the engagement
- procedures performed and their results to support the report and to demonstrate the engagement was carried out in accordance with the applicable standard and according to the terms of the engagement
- conclusions on compliance with independence requirements that apply to the engagement, and any relevant discussions with the firm that support these conclusions
- conclusions reached regarding the acceptance and continuance of client relationships and assurance engagements
- names of persons who performed the engagement work and the date such work was completed
- names of persons who reviewed the engagement work performed and the date and extent of such review
- discussions of significant matters with the appropriate parties and others, including the nature of the significant matters discussed and when and with whom the discussions took place
- issues identified with respect to compliance with relevant ethical requirements and how they were resolved
- nature and scope of, and conclusions resulting from, consultations undertaken during the engagement
- copy of communications with the third party, if any
- management representations
- other information the practitioner used to fulfill the reporting responsibility.

(See CSAE 3000.79–CSAE 3000.83 (and A200–A207) and CSAE 3001.82–CSAE 3001.86 (and A198–A205))

**QUESTION****Do I need a separate working paper file for a compliance engagement?**

This is a matter of professional judgment. There is no requirement to have a separate file but you need to complete the required engagement documentation. Keeping a separate file, however, could ensure the documentation is complete.

Whether the documentation is separate or not, the policies on assembly and retention of files are included in your quality assurance manual.

Also, keep in mind that the lockdown provisions under the quality control standards are applicable. (See Canadian Standard on Quality Control, CSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*, paragraph 45 and A54–A55)

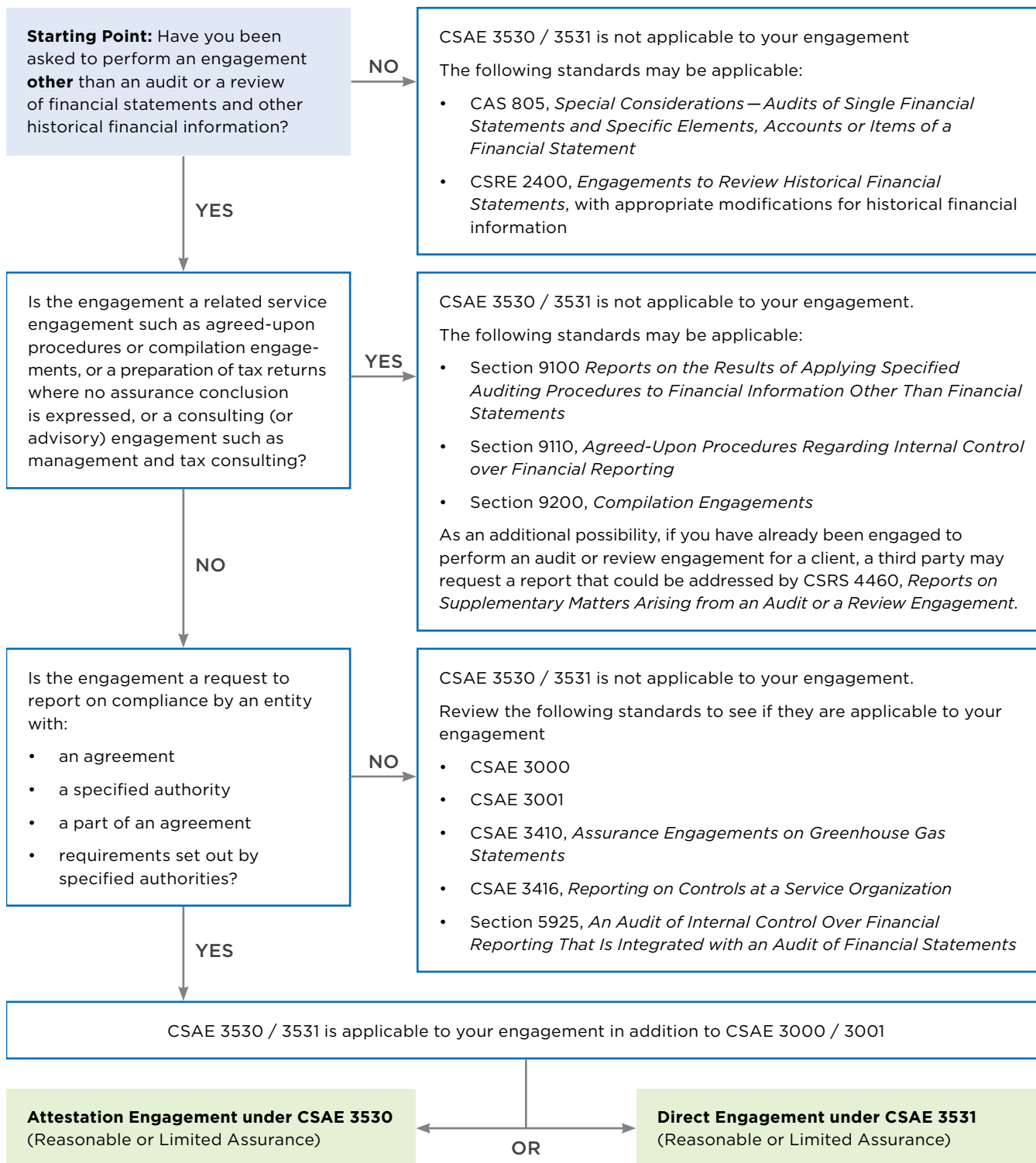
Additional Resources

1. CPA Canada's [Audit & Assurance Alert: CSAE 3530, Attestation Engagements to Report on Compliance and CSAE 3531, Direct Engagements to Report on Compliance \(July 2018\)](#)
2. CPA Canada's [Briefing for Management and Third Parties: CSAE 3530, Attestation Engagements to Report on Compliance and CSAE 3531, Direct Engagements to Report on Compliance \(October 2018\)](#)
3. CPA Canada's [Audit & Assurance Alert: CSAE 3000, Attestation Engagements Other Than Audits or Reviews of Historical Financial Information and CSAE 3001, Direct Engagements \(July 2015\)](#)
4. [Basis for Conclusions, CSAE 3530, Attestation Engagements to Report on Compliance and CSAE 3531, Direct Engagements to Report on Compliance \(March 2018\)](#)

Appendix A

Decision Tree on Assessment of Applicable Standards

The following decision tree will assist in determining which standard may be applicable:



Appendix B

Key Terms

The following key terms are provided from CSAE 3530 / 3531 to help you implement the standards and obtain the most benefit from this *Tool*:

<p>Agreements</p>	<p>written arrangements between the entity and a third party including agreements, contracts or memoranda of understanding, containing requirements with which the entity must comply</p>
<p>Criteria</p>	<p>the benchmarks used to measure or evaluate the entity's compliance with specified requirements</p>
<p>Internal control over compliance</p>	<p>an entity's internal control to manage the risk of non-compliance with specified requirements</p> <p>Reminder: Managements' internal control may include a wide variety of objectives and related policies and procedures only some of which may be relevant to an entity's compliance with the specified requirements.</p> <p>Examples:</p> <ul style="list-style-type: none"> • Internal control over compliance with a working capital requirement under a banking agreement would generally include accounting procedures on the classification of accounts to current assets and current liabilities. • Internal control over compliance with a requirement to practice non-discriminatory hiring may not include accounting procedures but rather a process that requires the completion of a screening form that documents the decisions made along with the reasons for selection.
<p>Management's statement of compliance</p> <p>only applicable to attestation compliance engagements (See CSAE 3530)</p>	<p>the outcome of management's evaluation of the entity's compliance with the specified requirements, provided to the user of the practitioner's report, including an explicit written statement of compliance. Management's statement of compliance is the subject matter information in an attestation engagement to report on compliance.</p> <p>Example:</p> <p>Management may prepare a report to demonstrate the entity's compliance. For example, management may prepare a schedule showing the entity's actual financial ratios compared to the financial ratios required by a banking agreement. This schedule, by itself, does not constitute management's written statement of compliance. Such a schedule would also need to be accompanied by a written statement from management that the entity complied with the specified requirements, such as:</p> <p style="padding-left: 40px;">"As illustrated in Schedule A, the company is in compliance with the working capital requirements under the banking agreement."</p>

<p>Misstatement</p> <p>only applicable to attestation compliance engagements (See CSAE 3530)</p>	<p>a difference between management's statement of compliance and the practitioner's evaluation of the entity's compliance with specified requirements</p> <p>REMINDER A misstatement can be quantitatively or qualitatively material, either individually or when aggregated with other misstatements.</p>
<p>Non-compliance</p>	<p>CSAE 3530: an instance of a failure by the entity to meet a specified requirement in whole or in part</p> <p>CSAE 3531: a deviation from the specified requirements</p> <p>REMINDER A deviation can be quantitatively or qualitatively significant (i.e., material), either individually or when aggregated with other deviations.</p>
<p>Professional judgment</p>	<p>the application of relevant training, knowledge and experience, within the context provided by assurance and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement</p>
<p>Professional skepticism</p>	<p>an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement, and a critical assessment of evidence</p>
<p>Relevant parties</p>	<p>the parties involved in an assurance engagement. Typically, this will include the user of the practitioner's report (who, in some circumstances, may be a regulator), the practitioner and the entity's management, although these parties may be referred to using different terms</p>
<p>Significant interpretation</p>	<p>an interpretation of the specified requirements necessary to enable the practitioner to conduct the engagement on management's statement of the entity's compliance under CSAE 3530 for an attestation engagement or to enable the practitioner to conduct the engagement on the entity's compliance under CSAE 3531 for a direct engagement</p> <p>In both engagements, an interpretation is significant if a different interpretation could be made that would change the practitioner's conclusion.</p>
<p>Specified authorities</p>	<p>legislation, regulations, orders-in-council, directives, municipal bylaws, corporate bylaws and other instruments through which powers are established and delegated</p>
<p>Specified requirements</p>	<p>the specific requirements established in agreements, by specified authorities, or a provision thereof, with which the entity is required to comply.</p>

Appendix C

Suggestions for Inclusion in the Engagement Letter

The following excerpts illustrate some possible terms for a *reasonable assurance attestation compliance* engagement under CSAE 3530. These excerpts can be considered for a stand-alone engagement letter or as a component of the year-end engagement letter.

These excerpts assume the engaging party is the entity; the responsible party is the entity's management and the measurer / evaluator is also the entity's management. Modifications are needed as these assumptions change.

Brackets [xxx] represent items to be changed or optional additions.

Name of Authorized Representative of the Engaging Party

[Title]

[Entity] ("The Engaging Party")

[Address]

The "Engaging Party" may be the entity or another party requesting the compliance engagement.

Relevant Characteristics

[Consider inserting an explanation of relevant characteristics of the specified requirement(s) of which the intended users should be aware of that will be included in the assurance report.]

The assurance report will disclose these characteristics as they are of particular relevance to the intended users.

Our objective is to:

- obtain reasonable assurance, as the terms in this Engagement Letter indicate, about whether management's statement of compliance with the specified requirement(s) referred to above is free from material misstatement
- express a conclusion regarding the outcome of management's measurement or evaluation of the entity's compliance with the underlying specified requirement(s) through a written report that conveys reasonable assurance, as the terms in this Engagement Letter indicate, and describes the basis for the conclusion

We accept this engagement because our preliminary knowledge of the engagement circumstances indicates the specified requirement is appropriate. During the course of the engagement, we will develop our understanding of the specified requirement such that it is sufficient to assess the risk the specified requirement may be materiality misstated. Such understanding may cause us to so revise our preliminary assessment that we may conclude the specified requirement is not appropriate. In such circumstances, we will discuss the matter with you, as the engaging party, because we may not be able to complete this engagement.

Applicable Criteria

The specified requirement will adequately describe the following criteria used to measure or evaluate the specified requirement:

[Insert as needed]

We accept this engagement because our preliminary knowledge of the engagement circumstances indicates the criteria are suitable for the purposes of the engagement. During the course of the engagement factors may arise that may cause us to revise our preliminary assessment and we may conclude the criteria are not suitable. In such circumstances, we will discuss the matter with you, as the engaging party, because we may not be able to complete this engagement.

Management's Responsibilities

Management, as responsible party and evaluator / measurer of the entity's compliance with the specified requirements, acknowledges and understands it is responsible for:

1. preparing the statement of the entity's compliance with the specified requirement
2. stating whether the entity is in compliance with the specified requirement
3. preparing an explicit, written statement of the entity's compliance with specified requirements for an external party
4. evaluating or measuring the specified requirement against the applicable criteria, including that all relevant matters be reflected in the specified requirement and the suitability of the applicable criteria
5. significant interpretations of the specified requirements and acknowledgment that the interpretation is suitable
6. providing us with access to all information of which management is aware that is relevant to the preparation of management's statement of compliance with the specified requirement such as records, documentation and other matters, including complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared of shareholders, board of directors and committees of the board of directors that may affect the specified requirement
7. providing us with additional information that we may request from management for the purpose of the engagement, including, if applicable, any changes in the Entity's operations since the date of our last assurance report on the entity's compliance with the specified requirements
8. providing us with unrestricted access to persons within the Entity from whom we determine it necessary to obtain evidence

9. such internal control as management determines is necessary to enable the preparation of management's statement of compliance with the specified requirement that is free from material misstatement, whether due to fraud or error. Management also acknowledges and understands they are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
10. ensuring all transactions have been recorded, if applicable
11. providing us with any communication from legislative authorities or counterparties to agreements concerning possible non-compliance with the specified requirements, including communications received between the end of the period addressed in the written statement and the date of the report
12. providing us with any known non-compliance with the specified requirements occurring during the period or subsequent to the period for which, or date as of which, management selected to make its statement
13. providing us with the written representations required to be obtained under professional standards and written representations we determine are necessary. Management also acknowledges and understands that, as required by professional standards, we may disclaim a conclusion when management does not provide certain written representations required
14. informing us of any documents, prior to their release, that will contain the assurance report.

Our Responsibilities

We will conduct our engagement in accordance with Canadian Standard on Assurance Engagements CSAE 3530, *Attestation Engagements to Report on Compliance* (CSAE 3530) and relevant ethical requirements (hereinafter referred to as applicable "professional standards").

We will plan and perform the engagement to obtain reasonable assurance as the terms in this Engagement Letter indicate. Accordingly, we will, among other things:

- identify and assess risks of material misstatement, whether due to fraud or error, in the subject matter information thereby providing a basis for designing and performing procedures to respond to the assessed risk. In obtaining an understanding of the specified requirement, we obtain an understanding of internal control over the preparing of the specified requirement relevant to the reasonable assurance engagement but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control, including internal control over the preparation of the subject matter information.
- communicate relevant matters, as required by professional standards, to those charged with governance.
- read other information included in any document prior to its release, which will contain the specified requirement, and our assurance report thereon in order to perform procedures required under professional standards.

If management does not fulfill the responsibilities above, we cannot complete our engagement. We may not be able to complete the engagement if the engaging party imposes a limitation on the scope of our work.

Form and Content of Our Report

Unless unanticipated difficulties are encountered, our report will be substantially in the form contained in Appendix xx to this letter. *[The sample report is not included with the excerpts. Note that if you do not include the report wording in the Appendix to the letter, then include it in the letter itself.]*

If we conclude a modification to our opinion is necessary, we will discuss the reasons with you in advance.

[Other standard components of an engagement letter would also include but not be limited to the following:

- confidentiality / use of information / privacy
- ownership of the working papers, files, other materials, reports and work created, developed or performed by us during the course of the engagement; these materials are the property of our firm, constitute confidential information and will be retained by us in accordance with our firm's policies and procedures
- file inspections, in accordance with professional regulations (and by our firm's policy). Our client files may periodically be reviewed by practice inspectors and by other engagement-file reviewers to ensure we are adhering to our and the firm's professional standards; file reviewers are required to maintain confidentiality of client information
- fees, estimated fees or retainer, billing practice
- etc.]

Appendix D

A Comparison of Reports Based on Section 5815 vs. CSAE 3531

(This Appendix provides a comparison of the reports under Section 5815 and a reasonable assurance engagement under CSAE 3531 for illustration purposes since they are the two engagements that could be considered most similar in nature. Section 5815 implied a direct compliance engagement though it was not explicitly described as such.)

The following example is from Section 5815:

EXAMPLE OF AN OPINION ON COMPLIANCE GIVEN IN A SEPARATE REPORT

AUDITOR'S REPORT ON COMPLIANCE WITH AGREEMENT

To A Trust Company Limited

I have audited Client Limited's compliance as at December 31, 19X1 with the criteria established by (describe nature of provisions to be complied with) described in Sections ___ to ___ inclusive of (name of agreement) dated _____, 19___ with (name of party to agreement) and the interpretation of such agreement as set out in note 1 attached. Compliance with the criteria established by the provisions of the agreement is the responsibility of the management of Client Limited. My responsibility is to express an opinion on this compliance based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether Client Limited complied with the criteria established by the provisions of the agreement referred to above. Such an audit includes examining, on a test basis, evidence supporting compliance, evaluating the overall compliance with these criteria, and where applicable, assessing the accounting principles used and significant estimates made by management.

In my opinion, as at December 31, 19X1, Client Limited is in compliance, in all material respects, with the criteria established by (the provisions to be complied with) described in Sections ___ to ___ of this agreement.

(signed) _____
PRACTITIONER

City

Date

The following chart compares the above example (revised for dates only) with a report under CSAE 3531 and provides some comments:

	Based on Section 5815	Based on CSAE 3531	Comments
Title	AUDITOR'S REPORT ON COMPLIANCE WITH AGREEMENT	INDEPENDENT PRACTITIONER'S REASONABLE ASSURANCE REPORT ON COMPLIANCE	new title
Addressee	To A Trust Company Limited	To Ministry of XYZ	no significant change
Using headings	none	optional	
Terminology	"audited"	"reasonable assurance"	
Introductory paragraph	We have audited Client Limited's compliance as at December 31, 20X1 with the criteria established by (describe nature of provisions to be complied with) described in Sections ___ to ___ inclusive of (name of agreement) dated _____, 20XX with (name of party to agreement) and the interpretation of such agreement as set out in note 1 attached.	We have undertaken a reasonable assurance engagement of ABC Company's compliance during the period January 1, 20X1, to December 31, 20X1, with the [identify the specified requirements] ("the specified requirements") established in Funding Agreement X dated October 30, 20X0.	
Reference to significant interpretations	Implied (See Section 5815.09)	Explicit Identification or description of significant interpretations to be included in report (See CSAE 3531.37(d))	
Management's responsibility	Compliance with the criteria established by the provisions of the agreement is the responsibility of the management of Client Limited.	Management is responsible for ABC Company's compliance with the specified requirements of the Agreement. Management is also responsible for such internal control as management determines necessary to enable ABC Company's compliance with the specified requirements.	expanded

	Based on Section 5815	Based on CSAE 3531	Comments
Practitioner's responsibility	<p>Our responsibility is to express an opinion on this compliance based on our audit.</p> <p>We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether Client Limited complied with the criteria established by the provisions of the agreement referred to above. Such an audit includes examining, on a test basis, evidence supporting compliance, evaluating the overall compliance with these criteria, and where applicable, assessing the accounting principles used and significant estimates made by management.</p>	<p>Our responsibility is to express a reasonable assurance opinion on ABC Company's compliance based on the evidence we have obtained.</p> <p>We conducted our reasonable assurance engagement in accordance with Canadian Standard on Assurance Engagements 3531, <i>Direct Engagements to Report on Compliance</i>. This standard requires that we plan and perform this engagement to obtain reasonable assurance about whether the entity complied with the specified requirements, in all significant respects.</p> <p>Reasonable assurance is a high level of assurance, but is not a guarantee that an engagement conducted in accordance with this standard will always detect a significant instance of non-compliance with specified requirements when it exists. Instances of non-compliance can arise from fraud or error and are considered significant if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users of our report. A reasonable assurance compliance engagement involves performing procedures to obtain evidence about the entity's compliance with the specified requirements. The nature, timing and extent of procedures selected depends on our professional judgment, including an assessment of the risks of significant non-compliance, whether due to fraud or error.</p>	expanded

	Based on Section 5815	Based on CSAE 3531	Comments
Practitioner's responsibility <i>(continued)</i>		<i>[The practitioner may insert a more detailed description of the nature, timing and extent of procedures performed that, in the practitioner's judgment, is important to the users' understanding of the basis for the practitioner's opinion.]</i>	
Conclusion on evidence	not addressed	We believe the evidence we obtained is sufficient and appropriate to provide a basis for our opinion.	new
Reference to independence and quality control	not addressed	<p>We have complied with the relevant rules of professional conduct / code of ethics applicable to the practice of public accounting and related to assurance engagements, issued by various professional accounting bodies, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.</p> <p>The firm applies Canadian Standard on Quality Control, <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements</i> and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</p>	new

	Based on Section 5815	Based on CSAE 3531	Comments
Opinion	In our opinion, as at December 31, 20X1, Client Limited is in compliance, in all material respects, with the criteria established by (the provisions to be complied with) described in Sections ___ to ___ of this agreement.	In our opinion, ABC Company complied with the specified requirements established in Funding Agreement X during the period January 1, 20X1, to December 31, 20X1, in all significant respects.	material respects v. significant respects This distinction is needed since compliance engagements include financial and non-financial matters.
Exclusion of legal opinion	not addressed	We do not provide a legal opinion on ABC Company's compliance with the specified requirements.	new
Sign-off	(signed) _____ PRACTITIONER City Date	[Practitioner's signature] [Date] [Practitioner's address]	no substantive change

About This Publication

The Research, Guidance and Support group of the Chartered Professional Accountants of Canada (CPA Canada) undertakes initiatives to support practitioners and businesses in the implementation of standards.

The views and conclusions expressed in this non-authoritative publication are those of the author. This publication contains general information only and is not intended to be comprehensive or to provide specific assurance, business, financial, investment, legal, tax or other professional advice or services. This publication is not a substitute for such professional advice or services, and it should not be acted on or relied upon or used as a basis for any decision or action that may affect you or your business.

This publication has not been updated since the publication date of May 2019. Practitioners are expected to use professional judgment in determining whether the material in this publication is both appropriate and relevant to the circumstances of each engagement.

CPA Canada expresses its appreciation to the author, Jane M. Bowen, FCPA, FCA, for developing this *Implementation Tool for Practitioners* and to the members of the Compliance Guidance Task Force for their contribution to its preparation. Without the valued and dedicated efforts of the Task Force, this publication would not have been possible.

Compliance Guidance Task Force

Members

Richard Flageole, FCPA, FCA
Assurance engagements consultant

Marian McMahon CPA, CA

Jennifer Meyerhoffer, CPA, CA
KPMG LLP

Dave Rasmussen, CPA, CA
BDO Canada LLP

Kelly Whitman, CPA, CA
Grant Thornton LLP

Author

Jane Bowen, FCPA, FCA
University of Ontario Institute of Technology

Staff

Yasmine Hakimpour CPA, CA
CPA Canada

Jacqui Kuypers, CPA, CA, MBA
Auditing and Assurance Standards Board

Comments on this *Implementation Tool for Practitioners*, or suggestions for future publications should be sent to:

Yasmine Hakimpour CPA, CA

Principal, Research, Guidance and Support
Audit & Assurance
Chartered Professional Accountants of Canada
277 Wellington Street West
Toronto ON M5V 3H2
Email: yhakimpour@cpacanada.ca

DISCLAIMER

This publication was prepared by the Chartered Professional Accountants of Canada (CPA Canada) as non-authoritative guidance. CPA Canada and the authors do not accept any responsibility or liability that might occur directly or indirectly as a consequence of the use, application or reliance on this material. This Audit & Assurance Alert has not been issued under the authority of the Auditing and Assurance Standards Board.

Copyright © 2019 Chartered Professional Accountants of Canada