

Audit & Assurance Alert

CANADIAN STANDARDS ON ASSURANCE ENGAGEMENTS (CSAE)

JULY 2018

STANDARDS DISCUSSED

CSAE 3530, *Attestation Engagements to Report on Compliance*

CSAE 3531, *Direct Engagements to Report on Compliance*

“Special Reports – Compliance with Agreements” (Section 5815/8600): Now Called Compliance Reporting

What You Need to Know

This *Audit & Assurance Alert* (Alert) is being issued to raise practitioners’ awareness of the requirements pertaining to attestation and direct engagements to report on an entity’s compliance with an agreement or specified authority.

What will this Alert cover?

- [When are these standards effective?](#)
- [Which standards do CSAE 3530 and CSAE 3531 replace?](#)
- [What is an engagement on compliance?](#)
- [What is the difference between an attestation and a direct compliance reporting engagement?](#)
- [What is the relationship of CSAE 3530/3531 with CSAE 3000/3001?](#)
- [What level of assurance can be provided for engagements to report on compliance?](#)

- [What can you do to be ready for these new standards?](#)
- [What additional resources are available to help you?](#)
- [Appendix: Sample Illustrative Reports](#)

CSAE 3530, <i>Attestation Engagements to Report on Compliance</i>	CSAE 3531, <i>Direct Engagements to Report on Compliance</i>
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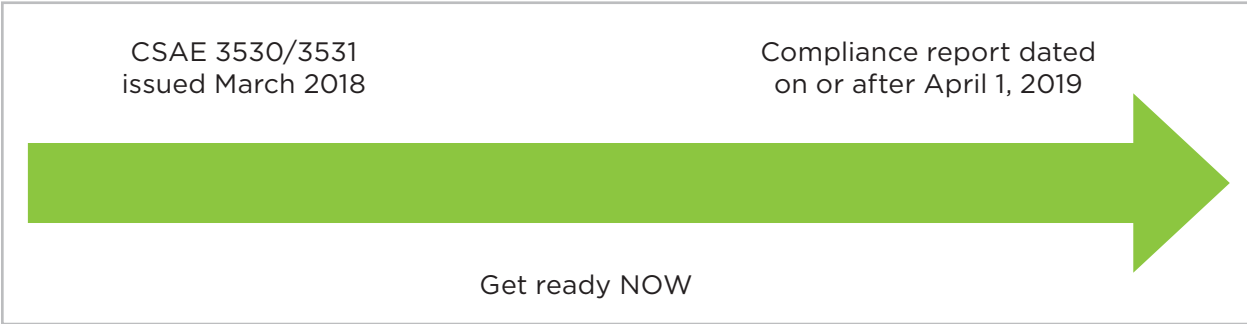
<p>This standard deals with special considerations in the application of CSAE 3000, <i>Attestation Engagements Other than Audits or Reviews of Historical Financial Statements</i> to reasonable (or limited) assurance engagements to report on management’s statement of an entity’s compliance with agreements, specified authorities, or a provision thereof.</p>	<p>This standard deals with special considerations in the application of CSAE 3001, <i>Direct Engagements</i> to reasonable (or limited) assurance engagements to report on an entity’s compliance with agreements, specified authorities, or a provision thereof.</p>
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Sample reports are included in the Appendix to this Alert

This Alert does not address all aspects relating to CSAEs 3530 and 3531, which contain additional requirements with which practitioners must comply when performing an attestation or direct compliance reporting engagement. Therefore, it does not replace the need to read the entire applicable standard, including the application and other explanatory material.

When are these standards effective?

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



The April 1 date was selected to reflect the fact that not-for-profit organizations and the public sector regularly engage practitioners to report on compliance and often have a March 31 year end.

The existing standards can still be used for compliance reports dated prior to April 1, 2019, and can be found in the archived pronouncements in the *CPA Canada Handbook—Assurance* at www.knotia.ca.

Which standards do CSAE 3530 and CSAE 3531 replace?

CSAE 3530 and CSAE 3531 replace:

- Section 5800, *Special Reports – Introduction*
- Section 5815, *Special Reports – Auditor’s Reports on Compliance with Agreements, Statutes and Regulations*
- Section 8600, *Reviews of Compliance with Agreements and Regulations*
- Paragraphs .11-.13 of PS Section 5300, *Auditing for Compliance with Legislative and Related Authorities in the Public Sector*

Key Differences from the Existing Standards

The existing *Handbook* Sections had limited requirements that focused primarily on reporting. The new standards introduce two types of engagements: attestation and direct compliance reporting, while combining the two levels of assurance. The new standards are much more robust because they contain detailed requirements dealing with engagement acceptance, performance and reporting. The new standards were written to align with CSAE 3000 and CSAE 3001 and require more transparency and clarity in reporting. Other key differences from the existing standards include requirements related to:

- acceptance and continuance of the engagement
- significant interpretations developed by management and/or practitioners
- acknowledgment from management on suitability of criteria
- materiality
- subsequent events
- written representations from management.

Audits and reviews of compliance with agreements are dealt with separately in the existing standards. The new standards address both reasonable and limited assurance compliance reporting engagements in the same standard, as discussed further in this Alert.

What is an engagement on compliance?

An engagement on compliance is one where a practitioner provides assurance that an entity has complied with requirements set out in agreements or by specified authorities. These engagements can be completed for profit or not-for-profit entities.

A requirement to demonstrate compliance could be included in:

- lease agreements
- borrowing agreements
- franchise agreements
- funding agreements
- policy or legislation containing performance requirements.

The requirement with which the entity must comply can be either financial or non-financial.

Specific examples include the following:

- lease agreement that requires the tenant to comply with limitations on the nature of business conducted on the premises
- borrowing agreement that requires the borrower to comply with a specified debt to equity requirement
- franchise agreement that requires the franchisee to spend a certain amount of funds in accordance with advertising policies specified in the agreement
- funding agreement that requires the recipient to maintain certain employment levels
- policy or law that requires an entity to comply with environmental matters.

The compliance engagement can be either an attestation or a direct engagement, and the practitioner can be engaged to provide reasonable or limited assurance.

What is the difference between an attestation and a direct compliance reporting engagement?

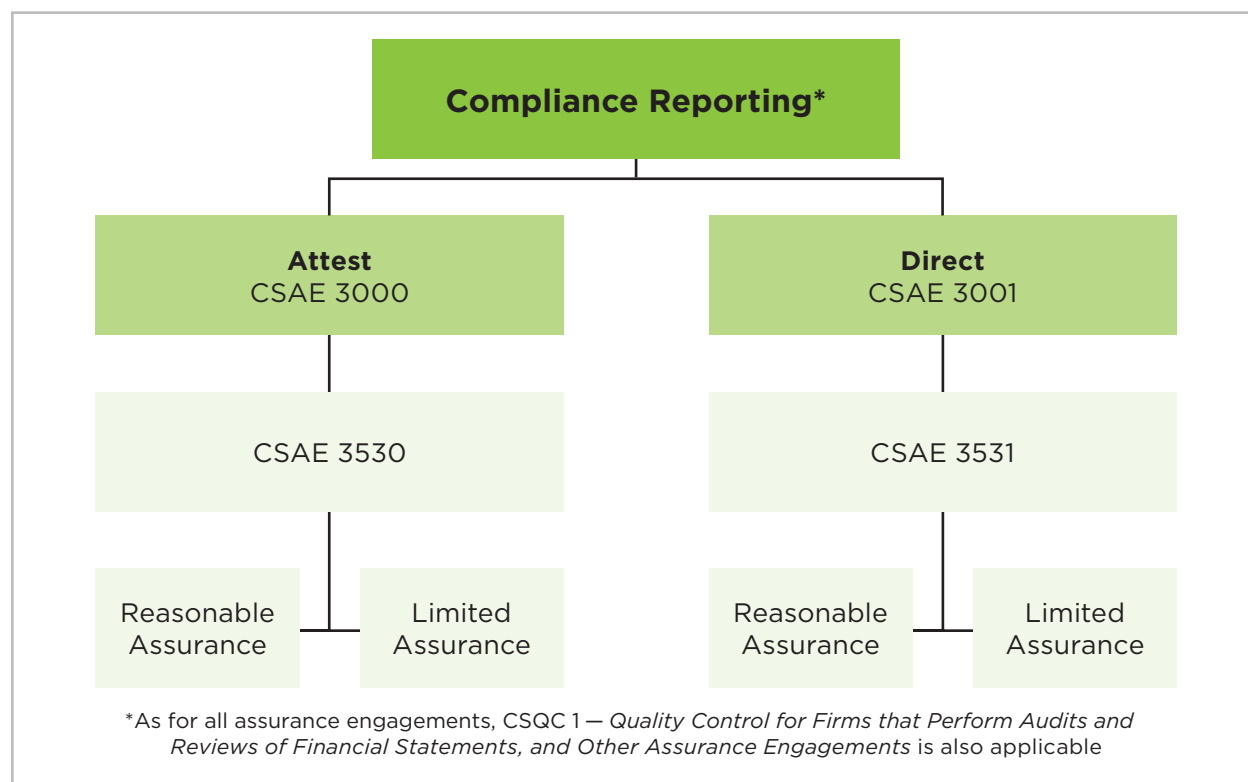
The differences between an attestation and a direct compliance reporting engagement are summarized as follows:

COMPLIANCE ENGAGEMENT	
Attestation Engagement	Direct Engagement
Nature of Opinion/Conclusion	
Practitioner opines/concludes whether management's statement/assessment of compliance is fairly stated.	Practitioner opines/concludes whether the entity complied.
Who Assesses Compliance	
Management and then the practitioner are required to assess the entity's compliance.	The practitioner is required to assess the entity's compliance. Management may have assessed the entity's compliance internally.
Statement of Compliance	
Management is required to provide an explicit written statement of the entity's compliance to an external party.	No explicit written statement of the entity's compliance is required from management to an external party.

What is the relationship of CSAE 3530/3531 with CSAE 3000/3001?

When performing an engagement within the scope of CSAE 3530/3531 for compliance reporting, the practitioner is also required to comply with CSAE 3000/3001. CSAE 3530/3531 expand on how CSAE 3000/3001 are to be applied in an engagement to report on the entity's compliance with specified requirements (CSAE 3530.13/3531.15).

The following diagram illustrates the relationship:



CSAE 3000/3001 provide requirements and application material for topics not specifically addressed in CSAE 3530/3531, including:

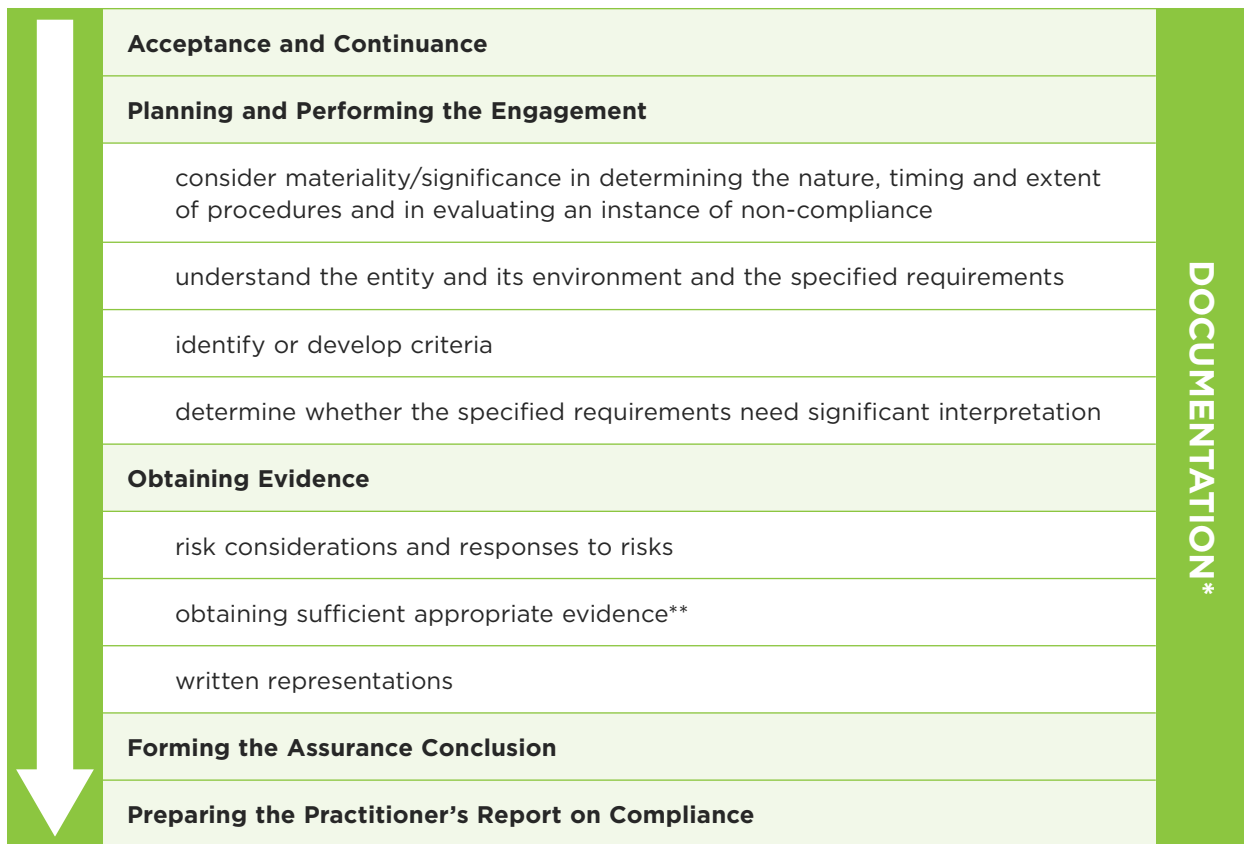
- ethics
- quality control
- professional skepticism, professional judgment, and assurance skills and techniques
- using the work of a practitioner’s expert
- using the work of another practitioner, an entity’s expert or an internal auditor
- subsequent events
- reporting when the entity’s management has identified and properly described that the information is materially misstated in an attestation engagement
- documentation (CSAE 3530.14/3531.16).

What level of assurance can be provided for engagements to report on compliance?

As mentioned earlier in this Alert, CSAE 3530/3531 address situations where the practitioner will provide either reasonable assurance (audit) or limited assurance (review). This has been done because there are few areas in compliance reporting engagements where the practitioner’s work effort would differ significantly regardless of whether the practitioner is performing a reasonable assurance or a limited assurance engagement.

The guidance within the standards easily distinguishes between the requirement by identifying the differences set up in a columnar format with the paragraphs numbered with “L” for Limited Assurance and “R” for Reasonable Assurance.

For either level of assurance, the requirements of CSAE 3530/3531 (along with CSAE 3000/3001 and CSQC 1), generally flow from acceptance of the engagement to preparing the report:



*As indicated above, CSAE 3530/3531 must be read in conjunction with CSAE 3000/3001 and a working paper file must be completed that would meet the documentation requirements in CSAE 3000/3001. For example, documentation is required to:

- be prepared on a timely basis
- provide a record of the basis for the assurance report
- be sufficient and appropriate to enable an experienced practitioner with no previous connection with the engagement to understand the:
 - nature, timing and extent of the procedures performed
 - results of the procedures performed and evidence obtained
 - significant matters arising during the engagement, the conclusions reached and significant professional judgments made in reaching those conclusions.

**For a reasonable assurance engagement, the practitioner may deem it necessary to obtain sufficient and appropriate evidence on the operating effectiveness of relevant internal controls over the information.

What can you do to be ready for these new standards?

- Identify any “special” engagements currently using the following:
 - Section 5815, *Special Reports – Auditor’s Reports on Compliance with Agreements, Statutes and Regulations*
 - Section 8600, *Reviews of Compliance with Agreements and Regulations*
 - Paragraphs .11-.13 of PS Section 5300, *Auditing for Compliance with Legislative and Related Authorities in the Public Sector*.
- Read CSAE 3530, *Attestation Engagements to Report on Compliance* and CSAE 3531, *Direct Engagements to Report on Compliance*. (Suggested additional reading: CSAEs 3000/3001 and CSQC 1 for an understanding of the relationship of the standards).
- Identify the timing of your engagements that will fall under these new standards based on the expected report date.
- Consider circulating a survey within your office to determine the type of report(s) third parties are requesting and how they are being addressed.
- Consider discussing internally whether there is a firm preference/requirement on issuing an attestation report vs. a direct report if the agreement does not specify.
- Discuss these new standards with your clients along with the type of report that will be issued as a result of these new standards.
- Consider whether the client should initiate a discussion with the third party who made the request to assess whether modifications to laws, regulations, agreements, may be necessary (e.g., if the agreement makes specific reference to Section 5815 or sets out prescribed wording of the practitioner’s report that will not comply with the requirements in CSAE 3530/3531).
- Develop any specific processes or procedures to comply with new requirements, including the development of new reports, templates or sample reports.
- Develop the work programs/checklists necessary to incorporate any new procedures that may need to be designed/performed.
- Raise awareness by training staff (and partners) in these new standards and consider open discussions across different offices (if applicable) to facilitate consistent application.
- Consider the implications for engagement planning such as timing, resources, etc.
- Prepare new engagement letters.

What additional resources are available to help you?

- CPA Canada *Audit & Assurance Alert*: [CSAE 3000, Attestation Engagements Other than Audits or Reviews of Historical Financial Information and CSAE 3001, Direct Engagements](#) (July 2015)
- [Basis for Conclusions](#) (March 2018)
- AASB Webinar: [AASB Re-exposure Draft: Reporting on Compliance](#) (July 2017)

Appendix: Sample Illustrative Reports

Illustrations of reports are included in the standard as follows:
(Note: the illustrations include green highlighting and commentary boxes to emphasize some of the key elements of the reports.)

CSAE 3530 — Attestation

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 reproduced below)

A practitioner's **limited assurance** report on management's statement that the entity complied with specified requirements established in a **lending agreement**. (Included as Illustration 2 in Section 3530)

CSAE 3531 — Direct

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 reproduced below)

A practitioner's **limited assurance** report on an entity's compliance with specified requirements established in a **lending agreement**. (Included as Illustration 2 in Section 3531)

Illustration 1 of CSAE 3530 — Attestation Engagement

For purposes of this illustrative practitioner's report, the following circumstances are assumed:

- Reasonable assurance engagement of management's statement that ABC Company has complied with specified requirements established in a funding agreement with the Ministry of XYZ for the period from January 1, 20X1, to December 31, 20X1.
- Management has given the practitioner a written statement that the entity has complied with the specified requirements. The practitioner has attached this statement to the practitioner's report.
- No interpretations of the agreement were necessary.
- The entity is in compliance with the specified requirements for the period.
- The practitioner is issuing an unqualified opinion.
- **The practitioner has chosen to use headings in the report.**

Use of headings in report to enhance/clarify is optional.

INDEPENDENT PRACTITIONER'S REASONABLE ASSURANCE REPORT ON COMPLIANCE

To Ministry of XYZ:

We have undertaken a **reasonable assurance** engagement of the accompanying statement 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.

Management's Responsibility

Management is responsible for measuring and evaluating ABC Company's compliance with the specified requirements of the Agreement and for preparing ABC Company's statement of compliance. **Management is also responsible for such internal control as management determines necessary to enable ABC Company's compliance with the specified requirements.**

Our Responsibility

Our responsibility is to express a **reasonable assurance opinion** on **management's statement** based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with **Canadian Standard on Assurance Engagements 3530, Attestation Engagements to Report on Compliance**. This standard requires that we plan and perform this engagement to obtain reasonable assurance about whether management's statement is fairly stated, in all material respects.

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 material instance of non-compliance with specified requirements when it exists. Instances of non-compliance can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users of our report. A reasonable assurance compliance reporting engagement involves performing procedures to obtain evidence about management's statement of the entity's compliance with specified requirements. The nature, timing and extent of procedures selected depends on our professional judgment, including an assessment of the risks of material misstatement of management's statement, whether due to fraud or error, and involves obtaining evidence about management's statement.

[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.]

New Title

Refers to Independent Practitioner and "reasonable assurance" v. Auditor's Report on Compliance With Agreements in Section 5815.

Management's Responsibility

Enhanced description of management's responsibility and includes reference to internal controls.

Practitioner's Responsibility

Enhanced description of practitioner's responsibilities with specific reference to the standard.

NEW Informative Summary

The illustrative report contains a generic informative summary. The practitioner may decide to add a more detailed description of the work performed. The procedures are to be summarized clearly, and not overstated or embellished to imply that more assurance has been obtained than is actually the case. It is important that the description does not give the impression that a specified auditing procedures engagement has been undertaken. In most cases, it will not detail the entire work plan.

We believe the evidence we obtained is sufficient and appropriate to provide a basis for our opinion. Information relevant to ABC Company's compliance with the specified requirements set out in the Agreement is set out in management's statement of compliance.

NEW Conclusion on sufficiency and appropriateness of evidence.

Our Independence and Quality Control

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.

NEW Reference to independence and quality control.

The firm applies **Canadian Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements** 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.

Opinion

In our opinion, **management's statement** that ABC Company complied with the specified requirements established in Funding Agreement X during the period January 1, 20X1, to December 31, 20X1, **is fairly stated**, in all material respects.

Practitioner's opinion on management's statement.

We do not provide a legal opinion on ABC Company's compliance with the specified requirements.

NEW Explicit statement that practitioner is not providing a legal opinion.

Purpose of Statement

Management's statement of compliance has been prepared to report to the Ministry of XYZ on ABC Company's compliance with the specified requirements established in the funding agreement. As a result, management's statement of compliance may not be suitable for another purpose.

NEW Description of purpose of statement and its limited suitability to others.

[Practitioner's signature]

[Date]

[Practitioner's address]

Illustration 1 of CSAE 3531 – Direct Engagement

For purposes of this illustrative practitioner’s report, the following circumstances are assumed:

- Reasonable assurance engagement of ABC Company’s compliance with specified requirements established in a funding agreement with the Ministry of XYZ for the period from January 1, 20X1, to December 31, 20X1.
- No interpretations of the agreement were necessary.
- The entity is in compliance with the specified requirements for the period.
- The practitioner is issuing an unqualified opinion.
- **The practitioner has chosen to use headings in the report.**

INDEPENDENT PRACTITIONER’S REASONABLE ASSURANCE REPORT ON COMPLIANCE

To Ministry of XYZ:

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.

Management’s Responsibility

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.

Our Responsibility

Our responsibility is to express a reasonable assurance opinion on **ABC Company’s compliance** based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with **Canadian Standard on Assurance Engagements 3531, Direct Engagements to Report on Compliance**. 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.

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 reporting engagement involves performing procedures to obtain evidence about the entity’s compliance with the specified requirements. The nature, timing and extent

Title

Same title in both attestation and direct engagements.

Practitioner’s Responsibility

The practitioner’s responsibility is to express an opinion on the entity’s compliance, without any reference to management’s statement.

of procedures selected depends on our professional judgment, including an assessment of the risks of significant non-compliance, whether due to fraud or error.

[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.]

We believe the evidence we obtained is sufficient and appropriate to provide a basis for our opinion.

Our Independence and Quality Control

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.

The firm applies Canadian Standard on *Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* 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.

Opinion

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.

We do not provide a legal opinion on ABC Company's compliance with the specified requirements.

[Practitioner's signature]

[Date]

[Practitioner's address]

Practitioner's direct opinion on whether the entity has complied.

CPA Canada expresses its appreciation to the author for developing this Audit & Assurance Alert and to the members of the Compliance Guidance Task Force for their contribution to its preparation.

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