

Briefing for Management and Third Parties

CANADIAN STANDARDS ON ASSURANCE ENGAGEMENTS (CSAE)

OCTOBER 2018

Standards Discussed:

CSAE 3530, *Attestation Engagements to Report on Compliance*

CSAE 3531, *Direct Engagements to Report on Compliance*

REPORTS ON
COMPLIANCE
ARE CHANGING

Purpose of this publication

CPA Canada has developed this *Briefing for Management and Third Parties (Briefing)* to help identify the key issues to consider when your client's management team or a third party requests a report to obtain assurance on an entity's compliance with an agreement or a specified authority.

This document has also been designed to assist in your discussions with your client and in your client's discussions with the third party if either requests a compliance reporting engagement. We have included some guidance on how to determine the nature of the request and how the needs of the third party can be met within the professional standards.

How to use this publication

To enable users of this *Briefing* to find the information most relevant to them as easily as possible, we have organized the information into three distinct sections, each aimed at a specific group of readers:

Part A – Practitioner's Overview

Developed specifically for you, the practitioner.

Part B – Management Briefing

What do you need to know?

Part C – Third Party Briefing

What do you need to know?

Designing the *Briefing* to satisfy the informational needs of three distinct groups necessitates a certain amount of redundancy; since most readers will refer to only one of the three sections, this should not present a problem.

You may find it useful to provide Part B and Part C directly to your clients who may pass Part C along to third parties; indeed, we have designed the *Briefing* to be used in this way.

PART A

Practitioner Overview

Standards Discussed:

CSAE 3530, *Attestation Engagements to Report on Compliance*

CSAE 3531, *Direct Engagements to Report on Compliance*

What is an engagement on compliance?

An engagement on compliance is one where you provide assurance that an entity has complied with requirements set out in agreements, specified authorities, or a provision thereof. These engagements can be completed for profit, not-for-profit, or public-sector 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 or to meet restrictions on how the funding is used
- policy or law that requires an entity to comply with environmental matters.

What are the new standards applicable to compliance engagements?

The new standards applicable to compliance engagements are as follows:

CSAE 3530, <i>Attestation Engagements to Report on Compliance</i>	CSAE 3531, <i>Direct Engagements to Report on Compliance</i>
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 engagements to report on management's statement of an entity's compliance with agreements, specified authorities, or a provision thereof.	This standard deals with special considerations in the application of CSAE 3001, <i>Direct Engagements</i> to engagements to report on an entity's compliance with agreements, specified authorities, or a provision thereof.
<i>Applicable to both reasonable assurance (audit) and limited assurance (review) engagements.</i>	<i>Applicable to both reasonable assurance (audit) and limited assurance (review) engagements</i>

As indicated above, the engagement can be either an attestation or a direct engagement and you can be engaged to provide reasonable or limited assurance. Therefore, there are in essence four types of engagements:

- attestation engagements with reasonable or limited assurance
- direct engagements with reasonable or limited assurance.

This *Briefing* will use the term “compliance engagements” to refer to the collection of specific engagements addressed in CSAE 3530/3531.

Why should you discuss this *Briefing* with your clients (Part B) and/or the third party (Part C)?

The new standards deal with engagements where your client or a third party wants assurance on compliance with an agreement or specified authority. This *Briefing* provides a summary of the key issues to consider from the viewpoint of each of the three parties involved in the request. It may help direct your discussions with your client and the third party. It is important to note that while your client may ask you to become involved in the discussions with the third party, ultimately, the type of report will be agreed to between your client and the third party.

These discussions are important since compliance engagements may currently be completed under the following existing standards which are being replaced:

- 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*

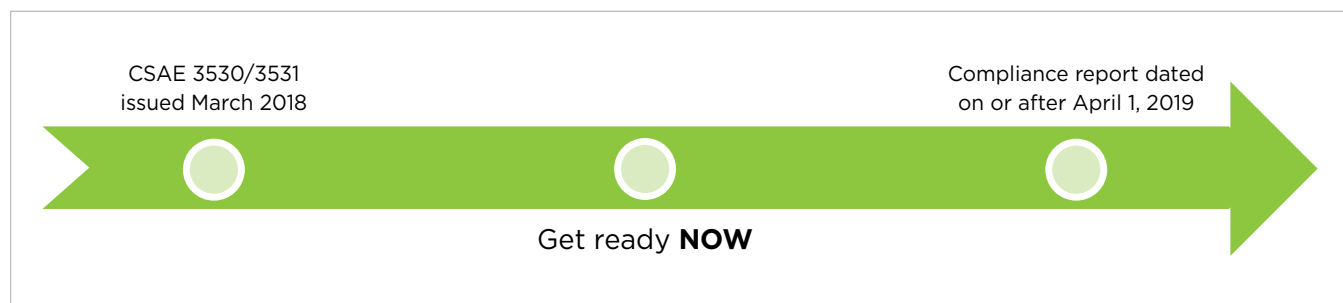
The discussions are necessary for all parties to understand what alternatives exist and to facilitate a smooth transition. This *Briefing* will prove useful in your discussions concerning any compliance reporting engagement by:

- helping you identify the effective date and planning implications of CSAE 3530/3531
- providing you with some preliminary steps for getting started, including an overview of the key aspects of CSAE 3530/3531
- providing all parties involved with a framework for discussion
- providing preliminary guidance to you as you prepare an engagement under CSAE 3530/3531.

Illustrative reports under the new standards are provided in the Appendix of this *Briefing*. It is expected that you would consider distributing the Appendix to your clients.

When are these standards effective?

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



The application of CSAE 3530/3531 and any related discussions with your client and/or the third party requesting assurance on compliance may result in changes to the engagement itself. Any discussions that take place in view of the new standards may lead to a better understanding of the nature of the request and the ways in which the needs of the third party can be met. Agreements, policies or legislation may need to be changed. If changes are required, they may take time to implement; it is strongly advised that you begin planning today, which is likely sooner than you think you need to.

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

Why was a change in compliance reporting needed?

The change was needed because:

- The existing standards dealing with “special reporting” in the *CPA Canada Handbook—Assurance* had not been updated for many years and did not align with the overarching standards (CSAE 3000/3001) for assurance engagements issued in 2015.
- The existing standards were not applied consistently in practice.
- CSAEs 3530/3531 needed to be consistent with the overarching standards which provide explicit reference to attestation vs. direct engagements.

- CSAEs 3530/3531 needed to be consistent with the overarching standards which had been expanded to include requirements and guidance around engagement acceptance, planning and performance, and reporting for both limited assurance and reasonable assurance engagements.

The new compliance reporting standards provide more clarity, consistency and transparency.

What are the key differences from the existing standards?

The existing *Handbook* Sections had limited requirements that focused primarily on reporting. As mentioned, the new standards introduce two types of engagements: attestation and direct, while combining the two levels of assurance: reasonable and limited.

The new standards are much more robust because they contain detailed requirements dealing with engagement acceptance, performance and reporting.

The new standards have been 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.

As indicated, audits and reviews of compliance with agreements were dealt with separately in the existing standards. The new standards address both reasonable and limited assurance compliance reporting engagements in the same standard.

Are there reasons not to accept an engagement under CSAE 3530/3531?

CSAE 3530 and CSAE 3531 provide specific guidance on the acceptance/continuance decision. Generally, you may not accept the engagement in the following circumstances:

- The underlying subject matter is NOT within your or your engagement team's professional expertise.
- **Criteria** do NOT exist or cannot be developed to assess compliance.
- You determine that **significant interpretations** are necessary, but agreement on these interpretations is unlikely.

The following definitions are important in the acceptance of a compliance engagement:

RELATED DEFINITIONS:

Criteria—the benchmarks used to measure or evaluate the entity’s compliance with specified requirements. (CSAE 3530.17(b)/CSAE 3531.19(b))

Significant interpretation—an interpretation of the specified requirements necessary to enable the practitioner to conduct the engagement on the entity’s compliance. An interpretation is significant if a different interpretation could be made that would change the practitioner’s conclusion. (CSAE 3530.17(h)/CSAE 3531.19(f))

The following references related to the acceptance/continuance decision are provided for you:

- attestation engagements (CSAE 3530.20 - CSAE 3530.21 (and A9 to A12))
- direct engagements (CSAE 3531.22 - CSAE 3531.23 (and A8-A10))

What can you do to prepare for these new standards?

The following steps will help you prepare for these new standards:

Step 1: Read the new standards.

Step 2: Identify your current and pending compliance engagements.

Step 3: Ascertain which standard might be applicable.

Step 4: Discuss the new standards with your clients.

Step 1: Read the new standards.

The first thing to do is to complete a full reading of these new standards to obtain an understanding of the requirements. A careful reading of CSAE 3530/3531 will help you understand what to expect from the requirements and exactly how the standards may affect you. Read the other standards identified in this *Briefing*, as needed, including:

- CSAE 3000, *Attestation Engagements Other than Audits or Reviews of Historical Financial Statements*
- CSAE 3001, *Direct Engagements*
- Canadian Standard for Quality Control (CSQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*

Step 2: Identify your current and pending compliance engagements.

The next step is to identify all current and pending compliance engagements. Identifying the engagements that were previously under the replaced standards (see above) will help capture many of the engagements that fall within the new standards.

Step 3: Ascertain which standard might be applicable.

Identify which of your current and pending engagements may fall under CSAE 3530/3531 and consider which type of engagement is required or best suited (attestation vs. direct and reasonable vs. limited assurance).

When a third party requires a compliance report, the following factors may be considered in order to determine the nature of the requirement/request and the resulting engagement:

- the level of assurance desired
- the alternative reporting engagements (i.e., attestation vs. direct)
- the costs
- the applicability of other relevant professional standards, including association and the rules of professional conduct.

Misunderstandings or “expectation gaps” can occur among the three parties with respect to what is being asked for and what can be provided. It is important, therefore, to discuss these factors, particularly if an attestation or direct report is expected, along with the level of assurance required/desired, and whether it is the appropriate level. (The levels of assurance are discussed further in Part B of this *Briefing*).

Step 4: Discuss the new standards with your clients.

Discuss the new standards as well as the type of report that will be issued as a result of the application of these new standards. (Use Parts B and C of this *Briefing* to facilitate the discussion, as appropriate.)

One of the objectives of this *Briefing* is to provide an avenue for the discussion required to assess the needs, objectives and possible limitations of all the parties involved. The following questions may help facilitate the discussion between you, your client and eventually your client and the third party, and will help obtain useful information from your client:

1. What does the third party require/want? Does the third party prefer an attestation or direct engagement? Do they prefer reasonable-level assurance, or will a lower level of assurance meet their needs? The third party may not need assurance from the practitioner at all (i.e., the third party may be satisfied with a direct statement from management).
2. What will the engagement cost? Some planning may be required to determine the estimated cost to complete the engagement.
3. Can the engagement be completed in a timely manner? Is there a strict timeline? Deadlines, the time required to complete the engagement and the level of assurance all affect cost.
4. Is there any flexibility in the requirement/request? Can the request or related regulation be changed? Is there any relevant regulation or laws that are prescriptive?
5. Is there likely to be a need for significant interpretations and the development of suitable criteria? This can be important when determining whether an engagement under CSAE 3530/3531 can be completed.

Third parties have to state clearly the type of compliance reporting they require/want, and you will have to determine whether you are in a position (with respect to your area of expertise, staff sufficiency and availability, etc.) to provide them with what they require/want. In order to do that, you will have to determine the nature and scope of the work required.

The ultimate goal is to reach a conclusion as to what is the most effective alternative that will best meet the needs of the third party.

When a compliance reporting engagement has been accepted, what's next?

Prepare an Engagement Letter for Each Engagement!

If the engagement is accepted, then requirements of the appropriate standard (CSAE 3530 or CSAE 3531) must be followed. Once you have accepted the engagement, you and your client will need to articulate the expectations and deliverables in an engagement letter.

The following activities will help you prepare for the engagement:

- Obtain and read the document or legislation which outlines the specific compliance requirement/request.
- Determine whether any terms are unclear. Any unclear terms may need to be interpreted, and you will need to determine whether:
 - you can make the interpretation yourself
 - you need to ask the client to make interpretations
 - you need to consult with the third party.

For attestation engagements ONLY (under CSAE 3530), management must prepare a statement of compliance for you to “attest” to. Ask management to start working on this as soon as possible so it will be ready by the time you start the engagement. The following definition and application material may help with this request:

DEFINITION:

Management's statement of compliance—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. (CSAE 3530.17(d))

Application and Other Explanatory Material:

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 lending agreement. This schedule by itself does not constitute management's written statement of compliance for the purpose of this CSAE. Such a schedule would also need to be accompanied by a written statement from management that the entity complied with the specified requirements. (CSAE 3530.A7)

What is next?

- Encourage a discussion between management and the third party to make sure everyone is aware that new reporting requirements are coming. Encourage management and the third party requesting any compliance reports to assess whether the requests/documents need to be changed or clarified to reflect the new standards.
- Circulate Part B and Part C of this *Briefing* as soon as possible.

What additional resources may help the discussion?

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

To summarize, there are many steps to be taken and judgments to be made in the application of these new standards. Achieving clarity of expectations and a satisfactory resolution to a requirement or request for compliance reporting may take some discussion and co-operation between all parties involved: client, practitioner and third party. The remaining two sections of this *Briefing* raise many of the same issues and make many of the same points as have been presented in Part A, but they have been tailored to a client audience and a third-party audience, respectively. You may choose to send, present and/or discuss these sections directly with your clients and/or third parties to facilitate a shared understanding of the new standards and the reports that are coming.

PART B

Compliance Reports— Management Briefing— What do you need to know?

Standards Discussed:

CSAE 3530, *Attestation Engagements to Report on Compliance*

CSAE 3531, *Direct Engagements to Report on Compliance*

REPORTS ON
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Are you management of an entity that must provide information to a third party?

If you are subject to a request or requirement from a regulator, funder or a third party through an agreement such that they are asking you to report on your compliance with a term or condition, then you must become aware of the changes to the compliance reporting standards.

One of the first steps is to provide your CPA with the details and source of the requirement (i.e., the agreement, legislation, letter or other document).

These requests will now have to be considered in the context of the new *CPA Canada Handbook—Assurance* standards, and your CPA will have to follow new standards when reporting on compliance.

This *Briefing* facilitates a better understanding of how you may meet any requests or requirements from third parties for your compliance with the terms of an agreement, policy or legislation. It will also facilitate discussions with your CPA, and possibly the third party making the request.

The types of compliance reports are changing. This means you need to approach any third party to which you report and start a discussion on how this transition can be done effectively.

What is an engagement on compliance?

An engagement on compliance is one where a CPA provides assurance that an entity has complied with requirements set out in agreements, specified authorities, or a provision thereof. These engagements can be completed for profit, not-for-profit, or public-sector 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:

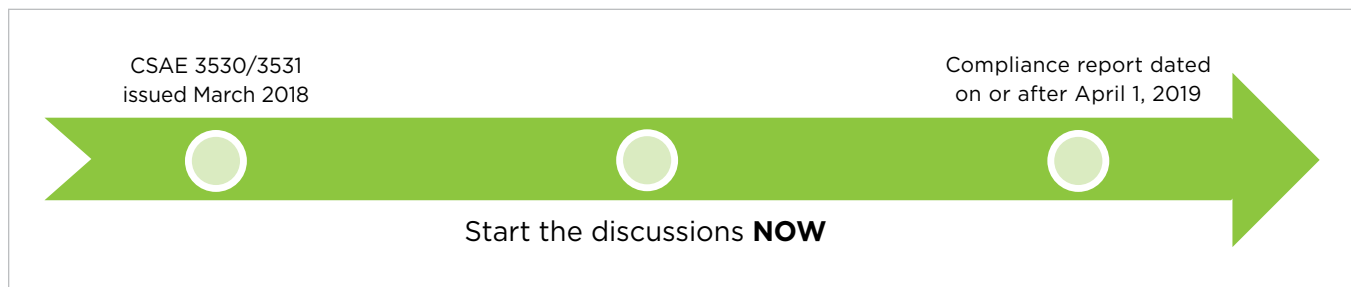
- lease agreement that requires the tenant to comply with limitations on the nature of business conducted on the premises
- borrowing agreement that requires the borrower to comply with a specified debt-to-equity requirement
- franchise agreement that requires the franchisee to spend a certain amount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

When are these standards effective?

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

You should engage in discussions with your CPA regarding the new standards and their effective date if you have had compliance engagements completed for a third party in the past. You should be sure to inform the CPA of all requests/requirements in a timely manner.

The planning for some engagements may need to begin sooner than you think. In addition, if any changes to the request (such as changes to wording of a prescribed report in an agreement or legislation) are required, it may take time for them to be implemented.



It is possible that the application of CSAE 3530/3531 and any related discussions between you and/or the party requesting assurance on compliance may result in changes to the engagement itself. It is also possible that discussions that take place in view of the new standards may lead to a better understanding of the nature of the request and the ways in which the needs of the third party can be met. Agreements, policies or legislation may need to be changed. If changes are required, they may take time to implement, so we strongly advise that you begin the discussion soon.

Why was a change in compliance reporting needed?

The change was needed because:

- The existing standards dealing with “special reporting” in the *CPA Canada Handbook— Assurance* had not been updated for many years and did not align with the overarching standards for assurance engagements issued in 2015.

- The existing standards were not applied consistently in practice.
- The overarching standards provide explicit reference to attestation vs. direct engagements.
- The overarching standards were expanded to include requirements and guidance around engagement acceptance, planning and performance, and reporting for both limited assurance and reasonable assurance engagements.

The new compliance reporting standards provide more clarity, consistency and transparency.

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

The existing *Handbook* Sections had limited requirements that focused primarily on reporting. The new standards introduce two types of engagements: attestation and direct, 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 current assurance standards and require more transparency and clarity in reporting.

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

Compliance Engagement	
Attestation Engagement	Direct Engagement
Nature of Opinion/Conclusion	
CPA opines/concludes whether your statement/assessment of compliance is fairly stated .	CPA directly opines/concludes whether the entity complied .
Who Assesses Compliance for Reporting Purposes	
You, as management , and then the CPA are required to assess the entity's compliance.	The CPA is required to assess the entity's compliance. Of course, you may have assessed the entity's compliance internally.
Statement of Compliance Accompanying Report	
As management, you are required to provide an explicit written statement of the entity's compliance.	No explicit written statement of the entity's compliance is required from you.

What other key differences can I expect?

Other key differences from the existing standards of importance to you include requirements related to:

- acceptance and continuance of the engagement; expect some discussion on the terms of the agreement and a request for an engagement letter
- significant interpretations; if any, they will need to be discussed and agreed upon
- an acknowledgment from you on suitability of criteria
- providing a written representation related to these engagements.

What do I need to do?

Under normal circumstances, you are responsible for preparing the information that will be needed to meet the request from a third party and facilitate the reporting thereon.

STEPS YOU CAN TAKE:

Step 1: Review Part C of this *Briefing* document.

Step 2: Collect information to provide to your CPA.

Step 3: Identify or develop the criteria to be used in determining compliance.

Step 1: Review Part C of this *Briefing* document.

Part C was prepared for the third party. By reading it, you will be prepared for any discussion required to clarify the nature of the engagement.

One of the objectives of this *Briefing* is to provide an avenue for the discussion required to assess the needs, objectives and possible limitations of all parties involved. The following questions may help facilitate the discussion between you and the third party:

1. What does the third party require/want? Does the third party prefer an attestation or direct engagement? Does the third party prefer reasonable-level assurance, or will a lower level of assurance meet their needs? Is it possible the third party may not need assurance from the practitioner at all?
2. Can the engagement be completed in a timely manner? Is there a strict timeline? Deadlines, the time required to complete the engagement and the level of assurance all affect cost.
3. Is there any flexibility in the requirement/request? Can the request or related regulation be changed? Is there any relevant regulation or laws that are prescriptive?
4. Is there likely to be a need for significant interpretations and the development of suitable criteria? This can be important when determining whether an engagement under the new standards can be completed.

The ultimate goal is to reach a conclusion as to what is the most effective alternative that will best meet the needs of the third party.

Step 2: Collect information to provide to your CPA.

Once you and the third party are clear on the nature of the engagement, you should start to collect the information that will help your CPA complete the engagement selected/required.

Step 3: Identify or develop the criteria to be used for determining compliance.

The criteria include:

- criteria established by a regulator
- criteria established by a contractual agreement
- other requirements specified by the third party.

In addition you must identify and document any significant interpretations of terms or criteria.

In some cases, the agreement, policy, or legislation may include terms or other items that are not well defined. You may consider discussing these matters with the third party before developing your own interpretation.

Discuss the criteria used and interpretations made with your CPA. You must be able to explain the nature and extent of the information that needs to be provided to the third party to enable your CPA to develop an appropriate report.

Will compliance reports change as a result of these new standards?

Yes, the reports will change since the new assurance standards have specific reporting requirements. The type of report will depend on the actual third-party request, any discussions that take place, and the agreement reached, if needed.

The Appendix to this *Briefing* includes two sample reports for reasonable assurance: one for an attestation engagement and the other for a direct engagement.

What is next?

- Participate in a discussion with your CPA and third party to discuss the new reporting requirements.
- Assess whether the requests and documents need to be changed or clarified.
- Discuss the nature of the engagement. It is important to have discussions with all parties regarding whether an attestation or direct engagement will be completed. If an attestation engagement is requested, you as management will need to assess the entity's compliance. The nature of the engagement will change the process and reporting requirements.
- Consider sending out information such as Part C of this *Briefing* and any relevant appendices to the third party in the current year before the changes happen, or as soon as possible.

PART C

Compliance Reports— Third Party Briefing— What do you need to know?

Standards Discussed:

CSAE 3530, *Attestation Engagements to Report on Compliance*
CSAE 3531, *Direct Engagements to Report on Compliance*

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Are you a third party that needs assurance on the compliance of an entity with your agreement/policy or legislation?

If you currently require assurance on whether an entity is in compliance with an agreement, policy or legislation (or a provision thereof), you should expect some discussions with the entity as the assurance standards and the reports are changing.

Do you already receive a “special report” and want to know what is changing?

The reports for compliance reporting are changing. You should expect to see new reports. Illustrative reports under the new standards are provided in the Appendix to this *Briefing*, and are also included in the new standards.

What is an engagement on compliance?

An engagement on compliance is one where a CPA provides assurance that an entity has complied with requirements set out in agreements, specified authorities, or a provision thereof. These engagements can be completed for profit, not-for-profit entities, or public-sector 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 or to meet restrictions on how the funding is used
- policy or law that requires an entity to comply with environmental matters.

What are the new standards applicable to compliance engagements?

The new standards applicable to compliance engagements are as follows:

CSAE 3530, <i>Attestation Engagements to Report on Compliance</i>	CSAE 3531, <i>Direct Engagements to Report on Compliance</i>
<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 engagements to report on management’s statement of an entity’s compliance with agreements, specified authorities, or a provision thereof.</p> <p><i>Applicable to both reasonable assurance (audit) and limited assurance (review) engagements.</i></p>	<p>This standard deals with special considerations in the application of CSAE 3001, <i>Direct Engagements to Report on Compliance</i> to engagements to report on an entity’s compliance with agreements, specified authorities, or a provision thereof.</p> <p><i>Applicable to both reasonable assurance (audit) and limited assurance (review) engagements.</i></p>

As indicated above, the engagement can be either an attestation or a direct engagement for which you can ask for reasonable or limited assurance. Therefore, there are in essence four types of engagement:

- attestation engagements with reasonable or limited assurance
- direct engagements with reasonable or limited assurance.

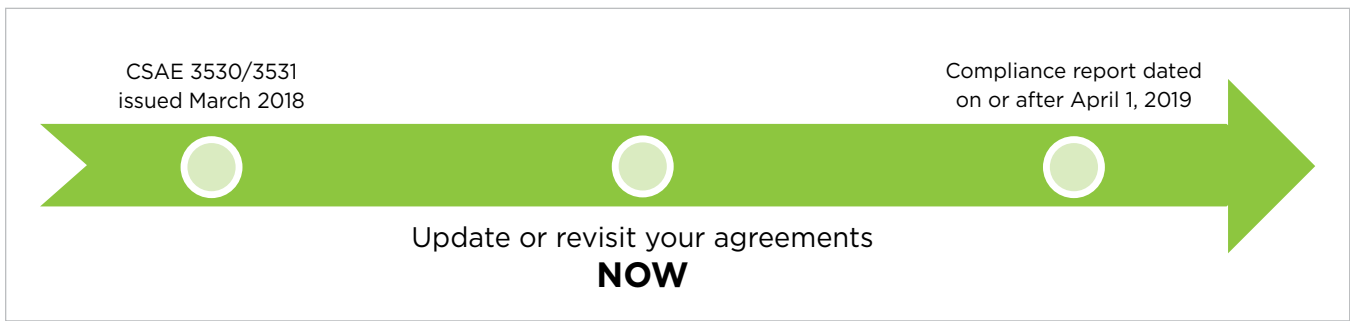
This *Briefing* will use the term “compliance engagements” to refer to the collection of multiple specific engagements addressed in CSAE 3530/3531.

When are these standards effective?

The new standards are effective for *compliance reports dated on or after April 1, 2019*, with early application permitted.

You should expect to engage in discussions with those entities from which you are expecting a compliance report well before that effective date. You should start to think about which compliance engagement, if any, would meet your needs.

Getting ready for some requests may need more time than you think.



The application of the new assurance standards and any related discussions between you and the entity will result in changes to the report you will receive. The discussions may lead to a better understanding of the nature of your request and the ways in which your needs can be met. In addition, agreements, policies or legislation may need to be changed. If changes are required, they may take time to implement, so we strongly advise that you begin the discussion soon.

Why was a change in compliance reporting needed?

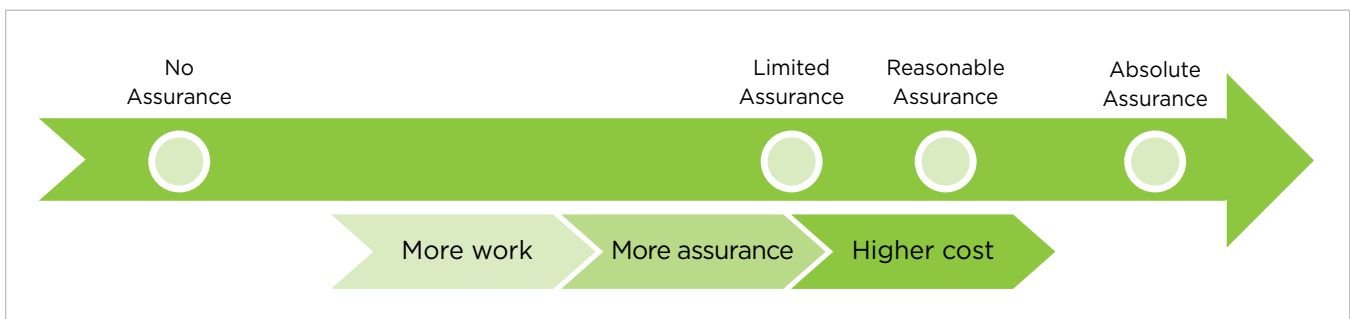
The change was needed because:

- The existing standards dealing with “special reporting” in the *CPA Canada Handbook—Assurance* had not been updated in many years and did not align with the overarching standards for assurance engagements issued in 2015.
- The existing standards were not applied consistently in practice.
- The overarching standards provide explicit reference to attestation vs. direct engagements.
- The overarching standards were expanded to include requirements and guidance around engagement acceptance, planning and performance, and reporting for both limited assurance and reasonable assurance engagements.

The new compliance reporting standards provide more clarity, consistency and transparency.

What are the different levels of assurance?

It is important that there be a clear and shared understanding of the level of assurance desired. The following graphic depicts the continuum of assurance, from no assurance to absolute assurance:



Not all work performed by the CPA is intended to provide the same level of assurance. A reasonable assurance (audit) engagement involves obtaining a significant depth of knowledge of the entity and its environment, with the performance of some detailed procedures. An audit provides “reasonable assurance” as depicted on the diagram above.

A limited assurance (review) engagement involves more limited knowledge and the procedures would primarily include inquiry and analysis. Such engagements provide “limited” assurance as depicted on the diagram above.

The Appendix to this *Briefing* includes two sample reports that illustrate reasonable assurance in an attestation and direct engagement.

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

The existing *Handbook* Sections had limited requirements that focused primarily on reporting. The new standards introduce two types of engagements: attestation and direct, 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 current assurance standards and require more transparency and clarity in reporting.

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

Compliance Engagement	
Attestation Engagement	Direct Engagement
Nature of Opinion/Conclusion	
CPA opines/concludes whether management’s statement/assessment of compliance is fairly stated.	CPA directly opines/concludes whether the entity complied.
Who Assesses Compliance for Reporting Purposes	
Management and the CPA are required to assess the entity’s compliance.	The CPA is required to assess the entity’s compliance. Management may have assessed the entity’s compliance internally.
Statement of Compliance Accompanying Report	
Management is required to provide an explicit written statement of the entity’s compliance.	No explicit written statement of the entity’s compliance is required from management.

What kind of compliance report do you want or need?

As the party requesting the compliance report, you need to articulate your request clearly.

Questions you may want to consider to help you determine the nature of the request are:

- Do I need assurance from a CPA and, if so, what type of engagement is appropriate (i.e., attestation vs. direct) and what level of assurance do I require? (see above)
- Can a CPA provide alternative engagements that might also satisfy my needs?
- Am I willing to accept alternatives?
- How difficult would it be to change the request? Is there flexibility? Is legislation involved, and does this legislation need updating?
- Is my request for compliance clear in its terms, requirements and definitions? Do I need to provide further clarification so the appropriate engagement and report can be issued?
- With whom do I need to correspond to make any changes to the requests, if needed to align with the new standards? Is legislation involved?

Are there reasons why a CPA may not be able to accept an engagement under the new standards?

The new assurance standards provide specific guidance to the CPA on the acceptance/continuance decision for the CPA, which may result in the CPA not being able to accept the engagement. Generally, the CPA cannot accept the engagement in the following circumstances:

- The underlying subject matter is NOT within the CPA's (or the engagement team's) professional expertise.
- **Criteria** do NOT exist or cannot be developed to assess compliance.
- **Significant interpretations** are necessary, and the CPA determines that agreement on the interpretations is unlikely.

It is important for you to consider the above in any request for compliance so that a CPA will be able to accept the engagement and provide the assurance you are looking for.

What is next?

- Participate in a discussion with those entities from which you require a compliance report. This will make sure everyone is aware the new reporting requirements are coming and your needs will be met.
- Decide on the nature of the engagement. It is important to have discussions on whether an attestation or direct engagement will be required and which level of assurance is desired: reasonable (audit) or limited (review). If you decide on an attestation engagement, management will need to ensure they have assessed the entity's compliance, which may have changed from the prior process.
- Assess whether the requests and/or any documents/forms/letters, etc. that include the request for a compliance engagement need to be changed or clarified to reflect the new standards. These changes could take some time to implement. In particular, if the requests are embedded in legislation, making the changes could be a lengthy process.
- If changes in the formal requests/requirements cannot be made before the new standards are effective, there may need to be some formulation of a temporary measure to address any delays. Agreement must be reached on any temporary agreements and documented and agreed to by all.

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	CSAE 3531 – Direct
<ul style="list-style-type: none"> 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 and reproduced below) 	<ul style="list-style-type: none"> 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 and reproduced below)
<ul style="list-style-type: none"> 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 CSAE 3530) 	<ul style="list-style-type: none"> A practitioner’s limited assurance report on an entity’s compliance with specified requirements established in a lending agreement. (Included as Illustration 2 in CSAE 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" vs. 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.

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, **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.

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

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.

[Practitioner's signature]

[Date]

[Practitioner's address]

NEW Conclusion on sufficiency and appropriateness of evidence.

NEW Reference to independence and quality control.

Practitioner's opinion on management's statement.

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

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

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

Title

Same title in both attestation and direct engagements.

Management’s Responsibility

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

Practitioner’s Responsibility

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

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.

[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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