



Re-exposure Draft

Auditing and Assurance Standards Board Proposed Canadian Standards on Assurance Engagements

Reporting on Compliance

April 2017

**COMMENTS TO THE AASB MUST BE RECEIVED BY
JULY 28, 2017**

Respondents are asked to email their comment letters (in a Word file) to: ed.assurancestds@cpacanada.ca
Please address your comments to:

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This Re-exposure Draft reflects proposals made by the Auditing and Assurance Standards Board (AASB).

Individuals and organizations are invited to send written comments on the Re-exposure Draft proposals. Comments are requested from those who agree with the Re-exposure Draft as well as from those who do not.

Comments are most helpful if they are related to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Re-exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. All comments received by the AASB will be available on the website shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

Highlights

The Auditing and Assurance Standards Board (AASB) proposes, subject to comments received following re-exposure, to issue Canadian Standards on Assurance Engagements (CSAE) 3530, *Special Considerations — Attestation Engagements to Report on Compliance*, and CSAE 3531, *Special Considerations — Direct Engagements to Report on Compliance*. These standards would replace:

- SPECIAL REPORTS — INTRODUCTION, Section 5800;
- SPECIAL REPORTS — AUDITOR'S REPORTS ON COMPLIANCE WITH AGREEMENTS, STATUTES AND REGULATIONS, Section 5815; and
- REVIEWS OF COMPLIANCE WITH AGREEMENTS AND REGULATIONS, Section 8600.

The standards would also replace AUDITING FOR COMPLIANCE WITH LEGISLATIVE AND RELATED AUTHORITIES IN THE PUBLIC SECTOR, paragraphs PS 5300.11-.13, addressing engagements that require an auditor, depending on the audit mandate, to express an opinion on whether an entity complied with specified authorities or whether its transactions were carried out in compliance with specified authorities.

Background

In January 2011, the AASB approved a project to replace Sections 5800, 5815 and 8600. In September 2015, the AASB issued its Exposure Draft of proposed CSAE 3530, *Reports on Compliance with Agreements, Statutes and Regulations*. The AASB received substantial feedback on its Exposure Draft by way of comment letters and consultations with various stakeholders. The AASB carefully considered the input received. Given the extent of the proposed changes to its Exposure Draft, the AASB decided to issue a Re-exposure Draft.

The fundamental principles underlying proposed CSAE 3530 and CSAE 3531, as set out in this Re-exposure Draft, are consistent with those underlying the Exposure Draft. The public interest considerations behind the fundamental principles underlying these CSAEs include:

- improving consistency in how practitioners perform these engagements; and
- requiring more transparency and clarity in reporting.

The Re-exposure Draft continues to be founded on the premise that the practitioner needs to understand and comply with the requirements in CSAE 3000, *Attestation Engagements Other than Audits or Reviews of Historical Financial Information*, and CSAE 3001, *Direct Engagements*, as appropriate to the engagement. In addition, proposed CSAE 3530 and CSAE 3531 set out specific requirements and application material applicable to engagements to report on compliance.

Main features of the Re-exposure Draft

Direct engagements

The Exposure Draft proposed that CSAE 3530 address attestation and direct engagements. The Exposure Draft also proposed that CSAE 3530 address reasonable assurance and limited assurance engagements. Respondents to the Exposure Draft expressed concern that one standard could be confusing to practitioners.

The AASB reconsidered its reasons for combining attestation and direct engagements in one standard in light of the comments received. The AASB decided that issuing two separate standards results in standards that are simpler and more straight forward for practitioners and other stakeholders. This also mirrors the approach taken in CSAE 3000 and CSAE 3001 that apply when a practitioner performs engagements to report on compliance. Having separate standards also allows the AASB to more clearly set out differences between attestation and direct engagements to report on compliance, including differences in the practitioner's objective and conclusion and in terminology used.

The Re-exposure Draft proposes a separate standard to address direct engagements to report on compliance. Proposed CSAE 3530 and CSAE 3531 each address reasonable assurance and limited assurance engagements. As a result of developing two separate standards, the titles of the proposed standards have changed. To more clearly reflect the purpose of the standards and their linkage with CSAE 3000 and CSAE 3001, the titles note that the standards deal with special considerations when applying CSAE 3000 or CSAE 3001, as appropriate, to engagements to report on compliance.

Explicit management statement

An attestation engagement is an assurance engagement in which a party other than the practitioner measures or evaluates the underlying subject matter against the criteria. In the case of an attestation engagement to report on an entity's compliance with specified requirements, management evaluates whether the entity complied with specified requirements. On the other hand, in a direct engagement, the practitioner evaluates whether the entity complied with specified requirements. Therefore, it is necessary for management to make an explicit written statement of compliance for the engagement to be an attestation engagement. Proposed CSAE 3530 requires that such statement of compliance be provided to users so they can understand the outcome of management's evaluation. A schedule prepared by management to implicitly demonstrate the entity's compliance with specified requirements may not be sufficient on its own. This requirement will likely represent a change from current practice for some practitioners.

In some cases, management may not be able to provide an explicit written statement of the entity's compliance. For example, a third party may require management to submit information electronically, no explicit statement is included and management cannot add an explicit statement. In such cases, the practitioner may not be able to conduct the

engagement under proposed CSAE 3530. However, the engagement may be acceptable under proposed CSAE 3531.

Terminology

Some respondents to the Exposure Draft expressed confusion with the terms “reasonable assurance” and “limited assurance”. The AASB believes that this confusion arose from the inconsistent use of, and practitioners’ unfamiliarity with, those terms. The Re-exposure Draft does not use the terms “audit” or “review”. Using the terms “reasonable assurance” and “limited assurance” is consistent with CSAE 3000 and CSAE 3001.

Scope of the standards

It is not always clear which is the appropriate standard to apply when a practitioner is engaged to report on information. For example, it may not be clear whether the purpose of an engagement is for the practitioner to report whether management’s statement of the entity’s compliance with specified requirements is fairly stated, or to report whether historical financial information in management’s statement has been prepared in accordance with an applicable financial reporting framework. As a result, practitioners may not respond in a consistent manner to these requests.

Paragraphs 8 in proposed CSAE 3530 and paragraph 9 in proposed CSAE 3531, and related application material, emphasize the importance for the practitioner to consider the purpose of the engagement and the needs of the entity and the users of the practitioner’s report before concluding which standard, if any, is applicable to the engagement.

Wording of the practitioner’s conclusion

The Re-exposure Draft proposes a change to the wording of the practitioner’s conclusion in an attestation engagement to report on compliance. In the Exposure Draft, this conclusion was framed in terms of whether management’s statement about its compliance with specified provisions is appropriate, in all material respects. For a limited assurance engagement, the conclusion was framed in terms of whether anything came to the practitioner’s attention to cause the practitioner to believe that management’s statement is not appropriate, in all material respects.

The AASB reconsidered its reasons for the original proposed wording and decided that revised wording of the conclusion would be more appropriate to clearly distinguish the different nature of attestation and direct engagements. The AASB believes that this is important because in an attestation engagement, management (not the practitioner) measures or evaluates the entity’s compliance. The practitioner reports on management’s written statement of the entity’s compliance.

Accordingly, in an attestation engagement to report on compliance, the conclusion for a reasonable assurance engagement is as follows: “... management’s statement that the

entity complied with the specified requirements is fairly stated, in all material respects.” For a limited assurance engagement, the conclusion is: “... nothing has come to our attention that causes us to believe that management’s statement that it has complied ... is not fairly stated, in all material respects.”

In a direct engagement to report on compliance, the conclusion is based on whether the entity complied with the specified requirements.

This differs from the practitioner’s conclusion in the extant standards, which says “...the entity is in compliance, in all material respects ...” The AASB believes that the proposals in the Re-exposure Draft will clarify the nature of the engagement. Currently, there is some confusion whether the practitioner is performing an attestation or a direct engagement to report on compliance.

Materiality

In response to comments received, the Re-exposure Draft proposes changes to the requirement in paragraph 15 of the Exposure Draft (now paragraph 20 in proposed CSAE 3530 and paragraph 21 in proposed CSAE 3531) dealing with materiality to more clearly set out when the practitioner considers materiality in a compliance reporting engagement. In addition, new application material has been added in paragraph A14 in proposed CSAE 3530 (paragraph A12 in proposed CSAE 3531) to note that materiality considerations would not differ between a reasonable assurance and a limited assurance engagement. In direct compliance reporting engagements, the term “significance” is used in place of “materiality”.

Criteria

The Exposure Draft required the practitioner, before accepting the engagement, to consider whether the specified requirements comprise criteria or can be used as the basis for developing criteria. However, the Exposure Draft did not include a requirement to identify or develop the necessary criteria while performing the engagement. To bridge this gap, the Re-exposure Draft includes such a requirement (paragraph 23 in proposed CSAE 3530 and paragraph 24 in proposed CSAE 3531).

Interpretations

One respondent to the Exposure Draft noted that proposed CSAE 3530 included a requirement regarding interpretations in the planning and performing the engagement section of the standard, but not in the engagement acceptance and continuance section. The Re-exposure Draft proposes changes to more clearly set out the practitioner’s responsibilities when significant interpretations of the specified requirements are needed. The proposed changes now include addressing the topic at both stages of the engagement. This includes a new definition (paragraph 15(g) in proposed CSAE 3530 and paragraph 16(f) in proposed CSAE 3531) and a requirement when accepting the engagement to consider the likelihood of being able to develop

significant interpretations (paragraph 19 in proposed CSAE 3530 and paragraph 20 in proposed CSAE 3531).

Risk assessment

Respondents to the Exposure Draft expressed the view that the standard did not provide sufficient guidance on performing risk assessment. Some respondents also noted that CSAE 3000 and CSAE 3001 also do not provide guidance on risk assessment in sufficient detail to enable practitioners to conduct risk assessments consistently in compliance reporting engagements.

The AASB agreed with respondents, but also recognized that the standards have to be applicable to a wide range of engagements to report on compliance. The Re-exposure Draft proposes a new requirement (paragraph 26L and 26R in proposed CSAE 3530 and paragraph 27L and 27R in proposed CSAE 3531) and application material (paragraph A26 in proposed CSAE 3530 and paragraph A23 in proposed CSAE 3531). The AASB believes that the added material will help practitioners determine what to consider in performing the risk assessment.

Obtaining evidence

Respondents to the Exposure Draft expressed the view that more guidance was needed to clarify how obtaining sufficient appropriate evidence differs between a reasonable assurance and a limited assurance compliance reporting engagement. The Re-exposure Draft proposes more detailed application material (paragraphs A27-A30 in proposed CSAE 3530 and paragraphs A24-A27 in proposed CSAE 3531) in this respect.

Subsequent events

The Exposure Draft included a requirement in paragraph 21 and application material in paragraph A20. However, respondents to the Exposure Draft noted that these paragraphs were not specific to compliance reporting engagements. The AASB agreed and removed the paragraphs. Practitioners may refer, where applicable, to the requirements and application material dealing with subsequent events in CSAE 3000 or CSAE 3001 when performing a compliance reporting engagement.

Public sector considerations

The AASB believes that compliance reporting engagements for entities in the public sector do not differ significantly from engagements for other entities. The Re-exposure Draft proposes to replace paragraphs PS 5300.11-.13. As a result, practitioners performing compliance reporting engagements for entities in the public sector would refer to either proposed CSAE 3530 or CSAE 3531, as appropriate. The Re-exposure Draft includes guidance specific to engagements in the public sector (paragraphs A5, A6, and A25 in proposed CSAE 3530 and paragraphs A5, A6 and A22 in proposed CSAE 3531).

The AASB plans to issue an exposure draft of a proposed Guideline to deal with the other aspects of Section PS 5300. The AASB expects to withdraw Section PS 5300 when the proposals in this Re-exposure draft and the exposure draft are finalized.

Multi-scope engagements

Respondents to the Exposure Draft noted that there is a lack of guidance in the CPA Canada Handbook — Assurance to address situations where a stakeholder's assurance needs do not clearly fit within one specific standard. They indicated that a practitioner may be requested to perform an engagement that includes a compliance reporting engagement and another reporting engagement (for example, a report on the financial information used to determine compliance). Such requests are becoming more common in practice and are often referred to as "multi-scope" engagements. There can be confusion in practice in determining which standards to use, and how to apply them, when performing a multi-scope engagement.

Given the potential complexities of addressing multi-scope engagements, the AASB decided that the topic requires further study. The AASB will consider whether there is need for a separate project or non-authoritative guidance to deal with these engagements.

Effective date

Subject to input the AASB receives from Canadian stakeholders:

- proposed CSAE 3530 would be effective for attestation engagements to report on management's statement of an entity's compliance with specified requirements, and
- proposed CSAE 3531 would be effective for direct engagements to report on an entity's compliance with specified requirements,

when the practitioner's report is dated on or after April 1, 2019.

Earlier application would be permitted. In the AASB's view, the proposed effective date would allow sufficient time for implementation of proposed CSAE 3530 and proposed CSAE 3531.

Until the proposed CSAEs become effective, practitioners would continue to use Sections 5800, 5815, 8600 or paragraphs PS 5300.11-.13, as appropriate.

Comments requested

The AASB requests comments on any aspect of proposed CSAE 3530 and CSAE 3531. Comments are most helpful when they are related to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Re-exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning.

The AASB is seeking views on the following questions:

1. Has the AASB appropriately identified those areas where a direct compliance reporting engagement would differ from an attestation compliance reporting engagement?
2. The proposed standards recognize that it may not be clear whether the practitioner is reporting on compliance or reporting on historical financial information, and emphasize the need to understand the purpose of the engagement. Is the guidance provided helpful in assisting practitioners in this regard? If not, what additional guidance is needed?
3. Do you agree with the proposed wording of the practitioner's conclusion for both CSAE 3530 and CSAE 3531?
4. Do you agree with the proposed revisions to add requirements and/or application material to more fully explain how CSAE 3000 or CSAE 3001 would be applied in a compliance reporting engagement? In particular, are the topics of materiality, interpretations, risk assessment and obtaining evidence sufficiently covered?
5. Do you agree with the proposed effective date?
6. Are there requirements in the proposed standards that may be difficult to apply in practice? If so, why?
7. What additional guidance, if any, may be necessary to assist practitioners in the successful implementation of the proposed standards?

The deadline for providing your comments to the AASB is July 28, 2017.

PROPOSED CANADIAN STANDARD ON ASSURANCE ENGAGEMENTS (CSAE) 3530, SPECIAL CONSIDERATIONS – ATTESTATION ENGAGEMENTS TO REPORT ON COMPLIANCE

(Effective for attestation engagements to report on management's statement or assertion of an entity's compliance when the practitioner's report is dated on or after April 1, 2019)

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Introduction

1. This Canadian Standard on Assurance Engagements (CSAE) deals with special considerations in the application of CSAE 3000¹ to reasonable assurance or limited assurance engagements to report on management's statement or assertion of an entity's compliance with agreements, specified authorities, or a provision thereof. The specific requirements established in agreements, by specified authorities, or a provision thereof against which compliance is measured and evaluated are referred to as specified requirements throughout this standard. (Ref: Para. A1-A2, A5-A6)
2. Engagements to report on compliance with specified requirements may be either attestation engagements or direct engagements. The subject matter in an attestation engagement to report on compliance with specified requirements may be either financial or non-financial in nature.
3. In an attestation engagement to report on compliance with specified requirements, management of the entity prepares an explicit, written statement of the entity's compliance with specified requirements for an external party and the practitioner reports on this statement. For example, in an engagement to audit an entity's compliance with covenants in a banking agreement, management may prepare a statement for the bank reporting that covenants have been met. The practitioner:
 - (a) Obtains an understanding of the covenants in the banking agreement;
 - (b) Performs procedures on the information relevant to determining whether the entity has complied with the covenants; and
 - (c) Reports to the engaging party (normally the entity's management) or to the bank (at the request of the engaging party) on whether management's statement is fairly stated, in all material respects.

A representation from management to the practitioner on the entity's compliance with the covenants does not constitute a public statement or assertion.
4. On the other hand, in a direct engagement to report on compliance with specified requirements, management does not prepare an explicit, written statement of the entity's compliance with specified requirements for an external party. For example, the practitioner may be engaged by a government agency to report on whether a hospital has complied with emergency room wait times established by the government. The practitioner:
 - (a) Obtains an understanding of the established wait times;

¹ CSAE 3000, *Attestation Engagements Other than Audits or Reviews of Historical Financial Information*

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- (b) Performs procedures to assess actual wait times; and
 - (c) Reports to the government agency.

Management's responsibility for managing wait times is not diminished in this scenario, and the practitioner would still obtain written representations from management on whether the entity has complied, in all material respects, with the government requirements.

- 5. For a simple engagement, the procedures may not be significantly different between an attestation and a direct engagement to report on an entity's compliance with specified requirements. However, when the specified requirements are more complicated or complex, the practitioner's procedures may be substantially different.

Scope of this CSAE

- 6. This CSAE deals with attestation engagements to report on management's explicit written statement of an entity's compliance with specified requirements. CSAE 3531 deals with direct engagements to report on an entity's compliance with specified requirements.²
- 7. Engagements under this CSAE may relate to a wide range of underlying subject matters. Examples of engagements that fall under the scope of this CSAE include reporting on management's statement of an entity's compliance with:
 - Requirements in a funding agreement specifying the purposes for which funding received by an entity must be spent;
 - Requirements in leasing agreements;
 - Covenants contained in loan agreements or bond indentures; and
 - Performance requirements set out in policy or legislation, such as hospital wait times established by a government agency or body.
- 8. In some cases, it may not be clear whether the purpose of the engagement is for the practitioner to report whether management's statement of the entity's compliance with specified requirements is fairly stated, or to report whether historical financial information in management's statement has been prepared in accordance with an applicable financial reporting framework. The practitioner may need to consider the purpose of the engagement, and the needs of the entity and the users of the practitioner's report, before concluding whether the engagement is one that should be conducted under this CSAE.
(Ref: Para. A3-A4)

² [Proposed] CSAE 3531, *Special Considerations — Direct Engagements to Report on Compliance*

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9. A practitioner may be engaged to perform an assurance engagement to report on the entity's internal controls over compliance (for example, whether those controls were operating effectively over a specified period or were appropriately designed and implemented at a point in time). Such an engagement would be outside the scope of this CSAE.
 10. A practitioner may be engaged to report the results of applying specified auditing procedures to financial information other than financial statements engagement findings. Such an engagement is not an assurance engagement and is addressed in Section 9100.³

Relationship with CSAE 3000

11. When performing an attestation engagement within the scope of this CSAE, in addition to complying with this CSAE, the practitioner is required to comply with CSAE 3000. This CSAE supplements, but does not replace, CSAE 3000, and expands on how CSAE 3000 is to be applied in an engagement to report on compliance with specified requirements.
12. CSAE 3000 is applicable to all attestation engagements that fall within the scope of this CSAE and provides requirements and application material for topics not specifically addressed in this CSAE, including:
 - (a) Ethical requirements;
 - (b) Quality control;
 - (c) Professional skepticism, professional judgment, and assurance skills and techniques;
 - (d) Using the work of a practitioner's expert;
 - (e) Using the work of another practitioner, an entity's expert or an internal auditor;
 - (f) Subsequent events;
 - (g) Reporting when the entity's management has identified and properly described that the subject matter information is materially misstated; and
 - (h) Documentation.

Effective Date

13. This CSAE is effective for attestation engagements to report on management's statement or assertion of an entity's compliance when the practitioner's report is dated on or after April 1, 2019.

³ REPORTS ON THE RESULTS OF APPLYING SPECIFIED AUDITING PROCEDURES TO FINANCIAL INFORMATION OTHER THAN FINANCIAL STATEMENTS, Section 9100

Objectives

14. In providing assurance on management's statement of an entity's compliance with specified requirements as at a point in time, or for a specified period of time, the objectives of the practitioner are to:
- (a) Obtain either reasonable assurance or limited assurance, as appropriate, about whether management's statement of an entity's compliance with specified requirements is free from material misstatement; and
 - (b) Express a conclusion that conveys either reasonable assurance or limited assurance on the matters noted in (a) in accordance with the practitioner's findings. (Ref: Para. A7)

Definitions

15. For purposes of this CSAE, the following terms have the meanings attributed below:
- (a) Agreements – Written arrangements between the entity and a third party including agreements, contracts or memoranda of understanding, containing requirements with which the entity must comply.
 - (b) Criteria – The benchmarks used to measure or evaluate the entity's compliance with specified requirements.
 - (c) Internal control over compliance – An entity's internal control to manage the risk of non-compliance with specified requirements. (Ref: Para. A8)
 - (d) 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. (Ref: Para. A9)
 - (e) Material non-compliance – A material misstatement of management's statement that the entity has complied with specified requirements when that is not the case or an instance of a failure by the entity to meet a specified requirement in whole or in part. A misstatement can be quantitatively or qualitatively material, either individually or when aggregated with other misstatements.
 - (f) Relevant parties – 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.

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- (g) Significant interpretation – An interpretation of the specified requirements necessary to enable the practitioner to conduct the engagement on management’s statement of the entity’s compliance. An interpretation is significant if a different interpretation could be made that would change the practitioner’s conclusion.
 - (h) Specified authorities – Legislation, regulations, orders-in-council, directives, municipal by-laws, corporate by-laws and other instruments through which powers are established and delegated. This term is commonly used in the public sector.
 - (i) Specified requirements – The specific requirements established in agreements, by specified authorities, or a provision thereof, with which the entity is required to comply.

Requirements

Conduct of the Engagement in Accordance with CSAEs

- 16. The practitioner shall not represent compliance with this CSAE unless the practitioner has complied with the requirements of this CSAE and any other CSAE relevant to the engagement.

Complying with Relevant Requirements

- 17. The practitioner shall comply with each requirement of this CSAE unless, in the circumstances of the engagement, the requirement is not relevant because it is conditional and the condition does not exist. Requirements that apply to only limited assurance engagements or reasonable assurance engagements have been presented in a columnar format with the letter “L” (limited assurance) or “R” (reasonable assurance) after the paragraph number. Although some procedures are required only for reasonable assurance engagements, nonetheless, they may be appropriate in some limited assurance engagements.

Acceptance and Continuance

- 18. Before accepting an engagement to report on management’s statement of an entity’s compliance with specified requirements, the practitioner shall:
 - (a) Be satisfied that the roles and responsibilities of the relevant parties are suitable in the circumstances; (Ref: Para. A10-A11)
 - (b) Be satisfied that the underlying subject matter is within the professional expertise of the engagement team; and (Ref: Para. A12)
 - (c) Consider whether the specified requirements comprise criteria or can be used as the basis for developing criteria.

19. If the practitioner determines that the specified requirements require significant interpretation, prior to accepting the engagement, the practitioner shall consider the likelihood of being able to:

- (a) In consultation with relevant parties, develop the necessary interpretations; and
- (b) Seek acknowledgment from management that the interpretations are suitable.

If it is unlikely that the practitioner will meet (a) and (b) above, the practitioner shall not accept the engagement, unless required by law or regulation to do so. (Ref: Para. A13)

Planning and Performing the Engagement

Materiality

20. The practitioner shall consider materiality when:

- (a) Determining the nature, timing and extent of procedures; and
- (b) When evaluating whether an instance of non-compliance is material. (Ref: Para. A14-A16)

Understanding the Entity and Its Environment and the Specified Requirements

Limited Assurance	Reasonable Assurance
<p>21L. The practitioner shall obtain an understanding of the entity and its environment and the specified requirements, sufficient to:</p> <ul style="list-style-type: none"> (a) Enable the practitioner to identify areas where material non-compliance with the specified requirements is likely to arise; and (b) Provide a basis for designing and performing procedures to address the areas identified in paragraph 21L(a) and to obtain limited assurance to support the practitioner's conclusion. (Ref: Para. A19-A21, A25) 	<p>21R. The practitioner shall obtain an understanding of the entity and its environment and the specified requirements, sufficient to:</p> <ul style="list-style-type: none"> (a) Enable the practitioner to identify and assess the risks of material non-compliance with the specified requirements; and (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. A17-A21, A25)

22. In obtaining an understanding of the entity and its environment and the specified requirements, the practitioner shall make inquiries concerning how management measures and evaluates the entity's compliance with the specified requirements.

Criteria

23. The practitioner shall:
- (a) Identify or develop the necessary criteria; and (Ref: Para. A22)
 - (b) Seek acknowledgment from management that the criteria are suitable. (Ref: Para. A23)

Significant Interpretation

24. When the practitioner determines that the specified requirements require significant interpretation, the practitioner shall:
- (a) In consultation with relevant parties, develop the necessary interpretation; and
 - (b) Seek acknowledgment from management that the interpretation is suitable. (Ref: Para. A23)
25. When the specified requirements require significant interpretation, the practitioner shall evaluate the consistency between periods in the application of interpretations of the specified requirements made by management. (Ref: Para. A24)

Obtaining Evidence

Risk Consideration and Responses to Risks

Limited Assurance	Reasonable Assurance
<p>26L. Based on the practitioner's understanding (see paragraph 21L), the practitioner shall:</p> <ul style="list-style-type: none"> (a) Identify areas where material non-compliance with the specified requirements is likely to arise; and (b) Design and perform procedures to address the areas identified in paragraph 26L(a) and to obtain limited assurance to support the practitioner's conclusion. (Ref: Para. A26) 	<p>26R. Based on the practitioner's understanding (see paragraph 21R), the practitioner shall:</p> <ul style="list-style-type: none"> (a) Identify and assess the risks of material non-compliance with the specified requirements; and (b) Design and perform procedures to respond to the assessed risks and to obtain reasonable assurance to support the practitioner's conclusion. (Ref: Para. A26)

Obtaining Sufficient Appropriate Evidence

27. The practitioner shall obtain sufficient appropriate evidence on which to base a conclusion. (Ref: Para. A27-A30)
28. When reporting on management's statement of an entity's compliance with specified requirements as at a point in time or throughout a specified period of time, the practitioner shall evaluate activities performed by the entity to meet the specified requirements and assess the entity's compliance with specified requirements as at the point in time or throughout the specified period of time.

Written Representations

29. The practitioner shall request representations from management:
(Ref: Para. A31)
 - (a) Acknowledging management's responsibility for preparing the statement of the entity's compliance with the specified requirements;
 - (b) Acknowledging management's responsibility for establishing and maintaining effective internal control over compliance with the specified requirements;
 - (c) Stating whether management has performed an evaluation of the entity's compliance with the specified requirements;
 - (d) When applicable, stating management's responsibility for significant interpretation of the specified requirements;
 - (e) Stating that the criteria used in the engagement are suitable;
 - (f) Stating whether the entity is in compliance with the specified requirements;
 - (g) Stating that 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 the practitioner's report; and
 - (h) 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.

Forming the Assurance Conclusion

30. The practitioner shall evaluate the sufficiency and appropriateness of the evidence obtained. If the practitioner becomes aware of a matter that leads the practitioner to question whether material non-compliance exists, the practitioner

shall perform further procedures sufficient to enable the practitioner to form a conclusion. (Ref: Para. A32-A33)

31. As soon as practicable, the practitioner shall make management aware of material non-compliance that has come to the practitioner's attention. (Ref: Para. A34)
32. The practitioner shall form a conclusion about whether management's statement of the entity's compliance with the specified requirements is fairly stated, in all material respects. (Ref: Para. A35)

Preparing the Practitioner's Report on Compliance

Content of the Practitioner's Report on Compliance

33. The practitioner's report on compliance shall include, at a minimum, the following basic elements:
 - (a) A title that clearly indicates that the practitioner's report is an independent practitioner's assurance report.
 - (b) An appropriate addressee as required by the circumstances of the engagement.
 - (c) An identification or description of the level of assurance obtained by the practitioner.
 - (d) Identification of the specified requirements and significant interpretations, if any, including the point in time or period of time to which the measurement or evaluation of compliance relates. (Ref: Para. A36-A37)
 - (e) A description of management's responsibility to measure and evaluate the entity's compliance with specified requirements and for its statement of the entity's compliance with the specified requirements.
 - (f) A description of the practitioner's responsibility to express a reasonable assurance opinion or a limited assurance conclusion on management's statement of the entity's compliance with the specified requirements.
 - (g) A statement that:
 - (i) The engagement was performed in accordance this CSAE; and
 - (ii) This CSAE requires that the practitioner plan and perform the engagement to obtain either reasonable assurance or limited assurance about whether management's statement of the entity's compliance with specified requirements is free from material misstatement.

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- (h) A statement that the firm of which the practitioner is a member applies CSQC 1,⁴ or other professional requirements, or requirements in law or regulation, that are at least as demanding as CSQC 1. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as CSQC 1.
 - (i) A statement that the practitioner complies with the independence and other ethical requirements of 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, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding.
 - (j) In a reasonable assurance engagement, a statement that the practitioner believes the evidence obtained is sufficient and appropriate to provide a basis for the practitioner's audit opinion.
 - (k) An informative summary of the work performed as a basis for the practitioner's conclusion. In the case of a limited assurance engagement, an appreciation of the nature, timing and extent of procedures performed is essential to understanding the practitioner's conclusion. In a limited assurance engagement, the summary of the work performed shall state that:
 - (i) The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement; and
 - (ii) Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.
 - (l) A statement that the engagement is not a legal analysis of the entity's compliance with specified requirements. (Ref: Para. A38)
 - (m) The practitioner's conclusion: (Ref: Para. A39-A40)
 - (i) When appropriate, the conclusion shall inform the intended users of the context in which the practitioner's conclusion is to be read.

⁴ CSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*

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- (ii) In a reasonable assurance engagement, the conclusion shall be expressed in a positive form.
 - (iii) In a limited assurance engagement, the conclusion shall be expressed in a form that conveys whether, based on the procedures performed and evidence obtained, a matter has come to the practitioner's attention to cause the practitioner to believe that the entity is not in compliance, in all material respects, with the specified requirements.
 - (iv) The conclusion in (ii) or (iii) shall be phrased in terms of whether management's statement of the entity's compliance with specified requirements is fairly stated, in all material respects.
 - (n) A statement alerting readers to the fact that management's statement of compliance is designed for a specific purpose and that, as a result, the statement may not be suitable for another purpose. (Ref: Para. A41)
 - (o) The practitioner's signature.
 - (p) The date of the practitioner's report, which shall be no earlier than the date on which the practitioner has obtained the evidence on which the practitioner's conclusion is based.
 - (q) The location in the jurisdiction where the practitioner practices.

Practitioner's Report Prescribed by Law or Regulation

- 34. In some cases, law or regulation prescribes the layout or wording of the practitioner's report. In these circumstances, the practitioner shall consider the substance and wording prescribed and, when necessary, shall make appropriate changes. (Ref: Para. A44)

Modified Conclusions

- 35. The practitioner shall express a modified conclusion when the practitioner concludes that:
 - (a) The entity has not complied, in all material respects, with the specified requirements;
 - (b) Management's statement is not fairly stated; or
 - (c) A scope limitation exists and the effect of the matter could be material. (Ref: Para. A45)
- 36. The practitioner shall describe the matter giving rise to the modification in the practitioner's report on compliance and the practitioner's opinion shall be modified in accordance with CSAE 3000. (Ref: Para. A46-A48)

Application and Other Explanatory Material

Scope of this CSAE (Ref: Para. 1-12)

- A1. Attestation engagements to report on compliance with specified requirements are conducted in both the private and public sectors. In either case, the engaging party will usually be the entity responsible for complying with the specified requirements that are the subject of the engagement.
- A2. The practitioner is not required to have been engaged to report on the financial statements of the entity in order to conduct an engagement in accordance with this CSAE. Also, this CSAE does not affect the practitioner's responsibility in an audit of financial statements performed in accordance with Canadian Auditing Standards (CASs), in particular, the need to meet the requirements in CAS 250.⁵
- A3. When the practitioner is engaged to express an audit opinion or a review conclusion on whether financial information has been prepared, in all material respects, in accordance with an applicable framework, the practitioner would follow the requirements of CAS 805⁶ or CSRE 2400,⁷ respectively, when auditing or reviewing such information. Both CAS 805 and CSRE 2400 apply to historical financial information. Therefore, it would not be appropriate to follow those standards when reporting on a statement of compliance with specified requirements.
- A4. Management may prepare a statement of net current assets, calculated according to a financial reporting framework as set out in a covenant in a lending agreement. Depending on the needs of the entity and the users of the practitioner's report, the practitioner may conclude that the purpose of the engagement is either to report whether:
- (a) Management's statement of the entity's compliance with the covenant is fairly stated, which is a compliance engagement conducted under this CSAE; or
 - (b) Management's statement of net current assets has been prepared in accordance with the applicable financial reporting framework set out in the lending agreement, which is not a compliance engagement under this CSAE and would be conducted in accordance with the CASs or CSRE 2400.

⁵ CAS 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

⁶ CAS 805, *Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

⁷ CSRE 2400, *Engagements to Review Historical Financial Information*

Considerations Specific to Engagements in the Public Sector

- A5. Auditors of public sector entities, such as federal, provincial and municipal governments, may be required by their mandates to express an opinion on whether an entity complied with specified authorities or whether its transactions were carried out in compliance with specified authorities. Under such mandates, the identification of specific authorities to be complied with and the selection of matters to be examined could be at the discretion of the practitioner. As a result, in fulfilling their mandates, practitioners need to determine whether to follow this CSAE or CSAE 3531.
- A6. Auditors of public sector entities may also be required to express an assurance opinion on whether the transactions that have come to their notice in the course of discharging their other audit responsibilities were carried out in compliance with specified authorities. These engagements are addressed in AuG-49.⁸

Objectives (Ref: Para. 14)

- A7. The practitioner may be asked to provide assurance on management's statement of an entity's compliance with specified requirements as at a point in time (for example, as at the year end of the entity). Alternatively, the engagement may cover a period of time (for example, the fiscal year of the entity). In some cases, the period covered may differ from that of the audit of the financial statements of the entity.

Definitions (Ref: Para. 15)

- A8. An entity's internal control over compliance is the process by which management obtains assurance of the entity's compliance with specified requirements. Although management's internal control may include a wide variety of objectives and related policies and procedures, only some of these may be relevant to an entity's compliance with specified requirements. An entity's internal control over compliance may vary based on the nature, extent and complexity of the specified requirements. For example, internal control over compliance with a capital requirement would generally include accounting procedures, whereas internal control over compliance with a requirement to practice non-discriminatory hiring may not include accounting procedures.
- A9. 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

⁸ [Proposed] ASSURANCE AND RELATED SERVICES GUIDELINE AuG-49, Reporting on Compliance with Specified Authorities for Transactions Coming to the Auditor's Notice during the Audit of Financial Statements

also need to be accompanied by a written statement from management that the entity complied with the specified requirements.

Acceptance and Continuance (Ref: Para. 18-19)

- A10. In an engagement letter, a written acknowledgment is the most appropriate form of documenting a mutual understanding of the respective responsibilities of management and the practitioner regarding compliance with specified requirements. In the absence of a written acknowledgment by management, it may still be appropriate for the practitioner to accept the engagement if other sources, such as legislation or a contract, indicate the entity's responsibility. In other cases, it may be appropriate to decline the engagement, or to disclose the circumstances in the practitioner's report, depending on the circumstances.
- A11. 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, the practitioner may not be able to accept an attestation engagement to report on management's statement of compliance, but may be able to undertake a direct engagement to report on compliance under CSAE 3531.
- A12. Reports on compliance with specified requirements are different from reports on financial statements or other historical financial information and may require professional expertise other than that required to perform an audit or review of financial statements or other historical financial information. Engagements to report on compliance with specified requirements would be accepted only when the specified requirements to be reported on deal with matters within the practitioner's professional expertise.
- A13. Evaluating compliance with specified requirements may require interpretation of the agreement, specified authority, or a provision thereof that establish those requirements. If interpretations are significant, the practitioner is required by paragraph 33(d) to include a paragraph in the practitioner's report on compliance describing the interpretations.

Planning and Performing the Engagement

Materiality (Ref: Para. 20)

- A14. The practitioner applies the same considerations in both limited assurance and reasonable assurance engagements regarding what represents material non-compliance, since such judgments are not affected by the level of assurance.
- A15. The practitioner's consideration of materiality is affected by:
- (a) The nature of the specified requirements, which may or may not be quantifiable in monetary terms;

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- (b) Qualitative considerations, including the needs and expectations of the report's users and the practitioner's perception of the common information needs of intended users as a group; and
 - (c) Matters encountered during the course of the engagement that may give rise to a need to reconsider materiality.

A16. Materiality is normally considered in the context of quantitative and qualitative factors, such as the following:

- The relative magnitude of instances of detected or suspected non-compliance;
- The nature and extent of the effect of these factors on the evaluation of compliance with the specified requirements; and
- The interests of the intended users.

The assessment of materiality and the relative importance of quantitative and qualitative factors in a particular engagement are matters for the practitioner's professional judgment.

Understanding the Entity and Its Environment and the Specified Requirements
(Ref: Para. 21)

A17. In understanding the specified requirements, the practitioner identifies and assesses the risks of material non-compliance. In a simple engagement, this risk assessment may not be onerous. Further, if the practitioner is also responsible for the audit or review of the entity's historical financial statements, the practitioner may be able to use evidence obtained during that engagement regarding risks of material non-compliance for purposes of this compliance engagement.

A18. The practitioner's understanding is sufficient to assess the risks that the entity is materially non-compliant with the specified requirements.

A19. In obtaining an understanding of the specified requirements, the practitioner may consider the following:

- Agreements or specified authorities that pertain to the specified requirements, including published requirements;
- Knowledge about the specified requirements obtained through prior engagements and regulatory reports;
- Knowledge about the specified requirements obtained through discussions with appropriate individuals within the entity (for example, the chief financial officer, internal auditors, legal counsel, compliance officer, or grant or contract administrators); and

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- Knowledge about the specified requirements obtained through discussions with appropriate individuals outside the entity (for example, a regulator). This may include reviewing reports of examinations, if any, relevant to the engagement and related communications between the relevant parties.
- A20. In some cases, the specified requirements with which the entity is required to comply represent only a portion of an agreement or specified authority. The practitioner's understanding of the specified requirements is intended to enable the practitioner to identify which aspect of the agreement or specified authority is applicable to the engagement.
- A21. Obtaining an understanding of the specified requirements is an essential part of planning and performing the compliance engagement. That understanding provides the practitioner with a frame of reference for exercising professional judgment throughout the compliance engagement, for example, when:
- Identifying when special consideration may be necessary, such as factors indicative of fraud and the need for specialized skills or the work of an expert;
 - Establishing and evaluating the continued appropriateness of quantitative materiality levels, when appropriate, and considering qualitative materiality factors;
 - Designing and performing further procedures to obtain sufficient appropriate evidence; and
 - Evaluating evidence, including the reasonableness of management's oral and written representations.

Criteria and Significant Interpretation (Ref: Para. 23-25)

- A22. In some cases, criteria may not have been specified by the agreement or specified authorities and management may not have developed criteria when measuring or evaluating the entity's compliance. In such cases, the practitioner may need to develop criteria.
- A23. When the practitioner develops criteria or significant interpretations that are specific to the engagement, it is desirable for relevant parties, including intended users, to acknowledge that specifically developed criteria or significant interpretations are suitable for their purposes. The practitioner may also ask the relevant parties to assist in developing the criteria.
- A24. 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 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.

Considerations Specific to Engagements in the Public Sector

A25. Governments and other entities in the public sector may be subject to the provisions of numerous authorities. In understanding the entity in the public sector and its environment, the practitioner may require knowledge of, and familiarity with, the authorities that apply to the entity, and the transactions for which it is responsible. Because the wording of these authorities may be subject to differing interpretations, the practitioner may wish to obtain independent legal advice, particularly when there is reason to believe that authorities are being misinterpreted or that subordinate authorities do not adhere to the directions or limits prescribed by enabling legislation.

Obtaining Evidence

Risk Consideration and Responses to Risks (Ref: Para. 26)

A26. In performing the risk assessment for a reasonable assurance engagement or, for a limited assurance engagement, identifying areas where material non-compliance with the specified requirements is likely to arise, the practitioner may consider the following factors:

- The nature of the specified requirements. Certain information may be more susceptible to misstatement (for example, when estimates must be made, when compliance is subjective versus objective or when information is complex versus simple).
- The entity's process for ensuring compliance, including controls in place and whether those controls are preventive or detective in nature, and manual or automated.
- Whether the entity has been subject to the specified requirements for a number of years. In the first year of reporting compliance with specified requirements, the risk of misstatement may be higher.
- The risk that management asserts compliance with the specified requirements when this is not the case. This misstatement by management may be accidental or intentional.
- The extent to which the risk of fraud is relevant to the engagement.
- Indicators of possible management bias, whether intentional or unintentional.

Obtaining Sufficient Appropriate Evidence (Ref: Para. 27)

- A27. In a limited assurance engagement to report on compliance with specified requirements, the nature, timing and extent of the practitioner's evaluation of activities undertaken to meet the specified requirements are ordinarily limited to discussion with the entity's personnel. In certain situations, the practitioner may also observe the system in operation and reperform an appropriate number of instances of material activities to identify any non-compliance. Alternatively, the results of exception reporting, monitoring or other management controls may be examined to provide evidence of the operation of the activity rather than directly testing the activity.
- A28. In a reasonable assurance engagement to report on compliance with specified requirements, in addition to discussion with the entity's personnel and observation of the activities, the practitioner ordinarily reperforms a sample of activities to provide sufficient appropriate evidence on which to base a conclusion. The results of exception reporting, monitoring or other management controls may be examined to reduce the extent of testing and evaluation of the operation of the activity, but do not eliminate it entirely.
- A29. The emphasis placed on the nature of various procedures as a source of evidence will likely differ, depending on the engagement circumstances. For example, the practitioner may judge it to be appropriate in the circumstances of a particular limited assurance engagement to place relatively greater emphasis on indirect evaluation of the entity's activities, such as inquiries of the entity's personnel, and relatively less emphasis on observation, reperformance or inspection, than may be the case for a reasonable assurance engagement.
- A30. If the practitioner is also responsible for the audit or review of the entity's historical financial statements, the practitioner may also consider the potential effect of non-compliance on the historical financial statements. If considered material, the practitioner may need to extend the engagement to report on compliance with the specified requirements to determine whether the non-compliance results in historical financial statements that are misleading.

Written Representations (Ref: Para. 29)

- A31. If management does not provide the requested representations, the practitioner may not have sufficient evidence to support the practitioner's conclusion. The practitioner is required by CSAE 3000 to take appropriate actions (which may include expressing a qualified conclusion, disclaiming a conclusion, or withdrawing from the engagement, where withdrawal is possible under law or regulation).⁹

⁹ CSAE 3000, paragraphs 60, 66 and A139

Forming the Assurance Conclusion (Ref: Para. 30-32)

Evaluation and Communication of Material Non-compliance

- A32. The particular circumstances of the engagement are relevant to the practitioner's use of professional judgment in evaluating the materiality of non-compliance.
- A33. In evaluating any non-compliance, the following are relevant:
- (a) Any legislative, regulatory, contractual or other requirements that may apply; and
 - (b) The effect of such non-compliance on the decisions of the intended users of the compliance report and the practitioner's conclusion.
- A34. The practitioner's communications with management may be made orally or in writing. The practitioner's decision whether to communicate orally or in writing is affected by factors including the following:
- The size, operating structure, legal structure and communications process of the entity;
 - The nature, sensitivity and significance of matters to be communicated;
 - The arrangements made with respect to periodic meetings or reporting of findings from the engagement; and
 - The extent of ongoing contact and dialogue the practitioner has with the entity.

Forming a Conclusion on Management's Statement

- 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.¹⁰

Preparing the Practitioner's Report on Compliance

Content of the Practitioner's Report on Compliance (Ref: Para. 33)

- A36. The amount of detail provided by the practitioner in identifying the specified requirements and the significant interpretations, if any, will depend on the circumstances. For example, if a specified requirement is to maintain a minimum amount of working capital, it may not be necessary to identify that

¹⁰ CSOA 5000, *Use of the Practitioner's Communication or Name*

amount in the report. However, if the requirement is subjectively worded to “maintain adequate working capital,” including the interpretation of “adequate” in the report provides more relevant information to the users of the report.

- A37. The practitioner may also, but is not required to, disclose criteria used to measure or evaluate the entity’s compliance with the specified requirements in the practitioner’s report.
- A38. In performing the engagement under this CSAE, because the practitioner is not an expert in legal matters, the practitioner is not in a position to make legal interpretations of the specified requirements. Therefore, the practitioner does not provide a legal analysis of the entity’s compliance. However, such a report may be useful to legal counsel or others in making such determinations.
- A39. CSAE 3000 requires the practitioner’s conclusion to be phrased using appropriate words for the underlying subject matter and applicable criteria given the engagement circumstances.¹¹ This conclusion is phrased in terms of:
- The underlying subject matter and the applicable criteria;
 - The subject matter information and the applicable criteria; or
 - A statement made by the appropriate party.
- A40. In the case of an attestation compliance engagement, this conclusion is phrased in terms of whether management’s statement that the entity complied with the specified requirements is fairly stated, in all material respects. In an attestation compliance engagement, the practitioner does not report on whether the entity complied with the specified requirements. This is the conclusion in a direct compliance engagement that is addressed in CSAE 3531.
- A41. The practitioner may indicate that the practitioner’s report is intended solely for specific users and any intended restriction on the distribution or use of the report.
- A42. The practitioner’s assurance report on compliance is usually issued separately but, in some cases, may be included in the practitioner’s report accompanying the financial statements. CAS 700¹² and CSRE 2400¹³ include requirements and guidance when the practitioner addresses other reporting responsibilities in the practitioner’s report on the financial statements.
- A43. The Appendix contains illustrations of practitioner’s compliance reports incorporating the elements set out in paragraph 33.

¹¹ CSAE 3000, paragraph C69(I)(iv)

¹² CAS 700, *Forming an Opinion and Reporting on Financial Statements*, paragraphs 38-39

¹³ CSRE 2400, paragraph 102

Practitioner's Report Prescribed by Law or Regulation (Ref: Para. 34)

A44. Information supplied by the entity to government authorities, trustees, insurers and other organizations may sometimes include a prescribed form of practitioner's report. Such reports may:

- Call for a certification of fact rather than an expression of opinion, or may call for an opinion on matters outside the scope of the practitioner's examination;
- Omit essential wording; or
- Be inappropriate in some other way.

Rather than making revisions to the report prescribed by law or regulation, it is preferable for the practitioner to attach an appropriately reworded report.

Modified Conclusions (Ref: Para. 35-36)

A45. CSAE 3000 establishes requirements and provides guidance regarding the issuance of modified conclusions.

A46. The practitioner uses professional judgment to determine if non-compliance with the specified requirements is material but not pervasive or material and pervasive. Examples of qualified and adverse conclusions are:

- Qualified conclusion (an example for a material but not pervasive misstatement) — “Based on the procedures performed and the evidence obtained, except for the effect of the matter described in the Basis for Qualified Conclusion section of our report, management’s statement that ABC Company complied, in all material respects, with the specified requirements [list the requirements or refer to the requirements (for example, “the requirements listed in Attachment 1”)] and the interpretation set out above during the period [date] to [date] [or “as at [date]”], is fairly stated.”
- Adverse conclusion (an example for a material and pervasive misstatement) — “Because of the significance of the matter described in the Basis for Adverse Conclusion section of our report, management’s statement does not appropriately reflect ABC Company’s compliance with the specified requirements [list the requirements or refer to the requirements (for example, “the requirements listed in Attachment 1”)] and the interpretation set out above during the period [date] to [date] [or “as at [date]”].”

A47. In some cases, the practitioner may also audit or review the entity's financial statements. If the practitioner's report on compliance containing a qualified or adverse opinion on the entity's compliance with specified requirements is

included in a document that also includes the practitioner's audit or review report on the entity's financial statements, the practitioner's compliance report may indicate that the effect of the non-compliance was considered on the audit or review report on the entity's financial statements. For example, the practitioner may include the following in the compliance report:

"We considered the effect of these conditions on our audit [review] of the 20X1 financial statements. This report on ABC Company's statement of compliance with the specified requirements does not affect our audit [review] report dated [date of report] on those financial statements."

A48. In some cases, the entity may not be in compliance with the specified requirements. However, management of the entity has properly identified and described such non-compliance in its statement of the entity's compliance with specified requirements. The practitioner is required to conclude whether management's statement is fairly stated. Although management's statement may be fairly stated, readers may misinterpret that the entity is in compliance with the specified requirements when this is not the case. The practitioner is required by CSAE 3000 to express an unqualified conclusion and include an Emphasis of Matter paragraph in the practitioner's report referring to management's statement that identifies and properly describes that the entity is not in compliance with the specified requirements.¹⁴ For example, the practitioner 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."

¹⁴ CSAE 3000, paragraph 77

Illustrations of Practitioner’s Reports on Compliance

- Illustration 1: A practitioner’s reasonable assurance report on management’s statement that the entity complied with specified requirements established in a funding agreement.
- Illustration 2: A practitioner’s limited assurance report on management’s statement that the entity complied with specified requirements established in a lending agreement.

Illustration 1

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.

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] 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 [identify 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 [identify 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, *Special Considerations — 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. 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 examining evidence about management's statement.

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 [identify the specified requirements] set out in the Agreement is set out in management's statement of compliance.

Our engagement is not a legal analysis of ABC Company's compliance with specified requirements.

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 [identify 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.

Purpose of Statement

Management's statement of compliance has been prepared to report to the Ministry of XYZ on ABC Company's statement of compliance with [identify 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]

Illustration 2

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

- Limited assurance engagement of management's statement that ABC Company has complied with debt covenants with GHI Bank as at December 31, 20X1.
- Management has given the practitioner a written statement that ABC Company has complied with the debt covenants. This statement is supported by a schedule that demonstrates the entity's compliance with the debt covenants. The practitioner has attached the statement and the schedule to the practitioner's report.
- An interpretation of the lending agreement was necessary.
- The entity is in compliance with the debt covenants.
- The practitioner is issuing an unqualified opinion.
- Distribution and use of the report is restricted.

INDEPENDENT PRACTITIONER'S LIMITED ASSURANCE REPORT ON COMPLIANCE

To GHI Bank

We have undertaken a limited assurance engagement of the accompanying statement of ABC Company's compliance, as at December 31, 20X1, with [identify the debt covenants] set out in the Lending Agreement dated January 1, 20X1 and the interpretation of the Lending Agreement [include interpretation].

Management's Responsibility

Management is responsible for measuring and evaluating ABC Company's compliance with [identify the debt covenants] 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 [identify the debt covenants].

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the entity's statement based on the evidence we have obtained. We conducted our limited assurance engagement in accordance with Canadian Standard on Assurance Engagements 3530, *Special Considerations — Attestation Engagements to Report on Compliance*. This standard requires us to conclude whether anything has come to our attention that causes us to believe that the management's statement that ABC Company complied with the specified requirements is not fairly stated, in all material respects.

In a limited assurance engagement, the practitioner performs procedures (primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures) and evaluates the evidence obtained.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and, consequently, the level of assurance obtained is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Our engagement is not a legal analysis of ABC Company's compliance with [identify the debt covenants].

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.

Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that ABC Company's statement that it has complied with [identify the debt covenants] set out in the Lending Agreement and the interpretation set out above as at December 31, 20X1, is not fairly stated, in all material respects.

Purpose of Statement and Restriction on Distribution and Use of Our Report

Management's statement of compliance has been prepared to report to GHI Bank on ABC Company's statement of compliance with [identify the debt covenants] set out in the Lending Agreement. As a result, the report may not be suitable for another purpose. Our report is intended solely for ABC Company and GHI Bank and should not be distributed to or used by parties other than ABC Company or GHI Bank.

[Practitioner's signature]

[Date]

[Practitioner's address]

PROPOSED CANADIAN STANDARD ON ASSURANCE ENGAGEMENTS (CSAE) 3531, SPECIAL CONSIDERATIONS – DIRECT ENGAGEMENTS TO REPORT ON COMPLIANCE

(Effective for direct engagements to report on an entity's compliance when the practitioner's report is dated on or after April 1, 2019)

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Introduction

1. This Canadian Standard on Assurance Engagements (CSAE) deals with special considerations in the application of CSAE 3001¹ to reasonable assurance or limited assurance engagements to report on an entity's compliance with agreements, specified authorities, or a provision thereof. The specific requirements established in agreements, by specified authorities, or a provision thereof against which compliance is measured and evaluated are referred to as specified requirements throughout this standard.
(Ref: Para. A1-A2, A5-A6)
2. Engagements to report on compliance with specified requirements may be either attestation engagements or direct engagements. The subject matter in a direct engagement to report on compliance with specified requirements may be either financial or non-financial in nature.
3. In a direct engagement to report on compliance with specified requirements, management does not prepare an explicit, written statement of the entity's compliance with specified requirements for an external party. For example, the practitioner may be engaged by a government agency to report on whether a hospital has complied with emergency room wait times established by the government. The practitioner:
 - (a) Obtains an understanding of the established wait times;
 - (b) Performs procedures to assess actual wait times; and
 - (c) Reports to the government agency.

Management's responsibility for managing wait times is not diminished in this scenario, and the practitioner would still obtain written representations from management on whether the entity has complied, in all material respects, with the government requirements.
4. On the other hand, in an attestation engagement to report on compliance with specified requirements, management of the entity prepares an explicit, written statement of the entity's compliance with specified requirements for an external party and the practitioner reports on this statement. For example, in an engagement to audit an entity's compliance with covenants in a banking agreement, management may prepare a statement for the bank reporting that covenants have been met. The practitioner:
 - (a) Obtains an understanding of the covenants in the banking agreement;
 - (b) Performs procedures on the information relevant to determining whether the entity has complied with the covenants; and

¹ CSAE 3001, *Direct Engagements*

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- (c) Reports to the engaging party (normally the entity's management) or to the bank (at the request of the engaging party) on whether management's statement is fairly stated, in all material respects.

A representation from management to the practitioner on the entity's compliance with the covenants does not constitute a public statement or assertion.

5. For a simple engagement, the procedures may not be significantly different between an attestation and a direct engagement to report on an entity's compliance with specified requirements. However, when the specified requirements are more complicated or complex, the practitioner's procedures may be substantially different.
6. Direct engagements have many features in common with attestation engagements undertaken under CSAE 3000.² Fundamental concepts related to matters such as level of assurance, risk and materiality (or significance) are the same. However, direct engagements also have features that are clearly distinct from those of attestation engagements. For example, direct engagements have the following features not shared by attestation engagements:
 - The party responsible for the underlying subject matter being reported on does not make a public statement regarding whether the entity's performance conformed with suitable criteria.
 - The practitioner usually decides what the nature and scope of the underlying subject matter to be reported on will be. The decision is based on knowledge of the entity's activities and the risks it faces.
 - The practitioner normally decides on the applicable criteria to be used for the engagement, deriving such criteria from relevant sources (for example, the agreement, pertinent laws or regulations, policies, directives, and guidelines) and seeking agreement from the party responsible for the underlying subject matter that the criteria are suitable.

Scope of this CSAE

7. This CSAE deals with direct engagements to report on an entity's compliance with specified requirements. CSAE 3530 deals with attestation engagements to report on management's written statement of an entity's compliance with specified requirements.³

² CSAE 3000, *Attestation Engagements Other than Audits or Reviews of Historical Financial Information*

³ [Proposed] CSAE 3530, *Special Considerations — Attestation Engagements to Report on Compliance*

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8. Engagements under this CSAE may relate to a wide range of underlying subject matters. Examples of engagements that fall under the scope of this CSAE include reporting on an entity's compliance with:
- Requirements in a funding agreement specifying the purposes for which funding received by an entity must be spent;
 - Requirements in leasing agreements;
 - Covenants contained in loan agreements or bond indentures; and
 - Performance requirements set out in policy or legislation, such as hospital wait times established by a government agency or body.
9. In some cases, it may not be clear whether the purpose of the engagement is for the practitioner to report whether the entity complied with specified requirements, or to report whether historical financial information has been prepared in accordance with an applicable financial reporting framework. The practitioner may need to consider the purpose of the engagement, and the needs of the entity and the users of the practitioner's report, before concluding whether the engagement is one that should be conducted under this CSAE. (Ref: Para. A3-A4)
10. A practitioner may be engaged to perform an assurance engagement to report on the entity's internal controls over compliance (for example, whether those controls were operating effectively over a specified period or were appropriately designed and implemented at a point in time). Such an engagement would be outside the scope of this CSAE.
11. A practitioner may be engaged to report the results of applying specified auditing procedures to financial information other than financial statements engagement findings. Such an engagement is not an assurance engagement and is addressed in Section 9100.⁴

Relationship with CSAE 3001

12. When performing a direct engagement within the scope of this CSAE, in addition to complying with this CSAE, the practitioner is required to comply with CSAE 3001. This CSAE supplements, but does not replace, CSAE 3001, and expands on how CSAE 3001 is to be applied in an engagement to report on compliance with specified requirements.

⁴ REPORTS ON THE RESULTS OF APPLYING SPECIFIED AUDITING PROCEDURES TO FINANCIAL INFORMATION OTHER THAN FINANCIAL STATEMENTS, Section 9100

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13. CSAE 3001 is applicable to all direct engagements that fall within the scope of this CSAE and provides requirements and application material for topics not specifically addressed in this CSAE, including:
- (a) Ethical requirements;
 - (b) Quality control;
 - (c) Professional skepticism, professional judgment, and assurance skills and techniques;
 - (d) Using the work of a practitioner's expert;
 - (e) Using the work of another practitioner, an entity's expert or an internal auditor;
 - (f) Subsequent events; and
 - (g) Documentation.

Effective Date

14. This CSAE is effective for direct engagements to report on an entity's compliance when the practitioner's report is dated on or after April 1, 2019.

Objectives

15. In providing assurance on an entity's compliance with specified requirements as at a point in time, or for a specified period of time, the objectives of the practitioner are to:
- (a) Obtain either reasonable assurance or limited assurance, as appropriate, about whether an entity complies with specified requirements; and
 - (b) Express a conclusion that conveys either reasonable assurance or limited assurance on the matters noted in (a) in accordance with the practitioner's findings. (Ref: Para. A7)

Definitions

16. For purposes of this CSAE, the following terms have the meanings attributed below:
- (a) **Agreements** – Written arrangements between the entity and a third party including agreements, contracts or memoranda of understanding, containing requirements with which the entity must comply.
 - (b) **Criteria** – The benchmarks used to measure or evaluate the entity's compliance with specified requirements.
 - (c) **Internal control over compliance** – An entity's internal control to manage the risk of non-compliance with specified requirements. (Ref: Para. A8)

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- (d) Significant non-compliance – A significant (material) deviation from the specified requirements. A deviation can be quantitatively or qualitatively material, either individually or when aggregated with other deviations.
 - (e) Relevant parties – 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.
 - (f) 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.
 - (g) Specified authorities – Legislation, regulations, orders-in-council, directives, municipal by-laws, corporate by-laws and other instruments through which powers are established and delegated. This term is commonly used in the public sector.
 - (h) Specified requirements – The specific requirements established in agreements, by specified authorities, or a provision thereof, with which the entity is required to comply.

Requirements

Conduct of the Engagement in Accordance with CSAEs

- 17. The practitioner shall not represent compliance with this CSAE unless the practitioner has complied with the requirements of this CSAE and any other CSAE relevant to the engagement.

Complying with Relevant Requirements

- 18. The practitioner shall comply with each requirement of this CSAE unless, in the circumstances of the engagement, the requirement is not relevant because it is conditional and the condition does not exist. Requirements that apply to only limited assurance engagements or reasonable assurance engagements have been presented in a columnar format with the letter “L” (limited assurance) or “R” (reasonable assurance) after the paragraph number. Although some procedures are required only for reasonable assurance engagements, nonetheless, they may be appropriate in some limited assurance engagements.

Acceptance and Continuance

19. Before accepting an engagement to report on an entity's compliance with specified requirements, the practitioner shall:
- (a) Be satisfied that the roles and responsibilities of the relevant parties are suitable in the circumstances; (Ref: Para. A9)
 - (b) Be satisfied that the underlying subject matter is within the professional expertise of the engagement team; and (Ref: Para. A10)
 - (c) Consider whether the specified requirements comprise criteria, or can be used as the basis for developing criteria.
20. If the practitioner determines that the specified requirements require significant interpretation, prior to accepting the engagement, the practitioner shall consider the likelihood of being able to:
- (a) In consultation with relevant parties, develop the necessary interpretations; and
 - (b) Seek acknowledgment from management that the interpretations are suitable.

If it is unlikely that the practitioner will meet (a) and (b) above, the practitioner shall not accept the engagement, unless required by law or regulation to do so. (Ref: Para. A11)

Planning and Performing the Engagement

Significance

21. The practitioner shall consider significance when:
- (a) Determining the nature, timing and extent of procedures; and
 - (b) When evaluating whether an instance of non-compliance is significant. (Ref: Para. A12-A14)

Understanding the Entity and Its Environment and the Specified Requirements

Limited Assurance	Reasonable Assurance
<p>22L. The practitioner shall obtain an understanding of the entity and its environment and the specified requirements, sufficient to:</p> <ul style="list-style-type: none">(a) Enable the practitioner to identify areas where significant non-compliance	<p>22R. The practitioner shall obtain an understanding of the entity and its environment and the specified requirements, sufficient to:</p> <ul style="list-style-type: none">(a) Enable the practitioner to identify and assess the risks of significant non-

<p>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 22L(a) and to obtain limited assurance to support the practitioner's conclusion. (Ref: Para. A17-A19, A22)</p>	<p>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. A15-A19, A22)</p>
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23. In obtaining an understanding of the entity and its environment and the specified requirements, the practitioner shall make inquiries concerning how management monitors the entity's compliance with the specified requirements.

Criteria

24. The practitioner shall:
- (a) Identify or develop the necessary criteria; and
 - (b) Seek acknowledgment from management that the criteria are suitable.
(Ref: Para. A20)

Significant Interpretation

25. When the practitioner determines that the specified requirements require significant interpretation, the practitioner shall:
- (a) In consultation with relevant parties, develop the necessary interpretation; and
 - (b) Seek acknowledgment from management that the interpretation is suitable.
(Ref: Para. A20)
26. When the specified requirements require significant interpretation, the practitioner shall evaluate the consistency between periods in the application of interpretations of the specified requirements made by management.
(Ref: Para. A21)

Obtaining Evidence

Risk Consideration and Responses to Risks

Limited Assurance	Reasonable Assurance
<p>27L. Based on the practitioner's understanding (see paragraph 22L), the practitioner shall:</p> <ul style="list-style-type: none">(a) Identify areas where significant non-compliance with the specified requirements is likely to arise; and(b) Design and perform procedures to address the areas identified in paragraph 27L(a) and to obtain limited assurance to support the practitioner's conclusion. (Ref: Para. A23)	<p>27R. Based on the practitioner's understanding (see paragraph 22R), the practitioner shall:</p> <ul style="list-style-type: none">(a) Identify and assess the risks of significant non-compliance with the specified requirements; and(b) Design and perform procedures to respond to the assessed risks and to obtain reasonable assurance to support the practitioner's conclusion. (Ref: Para. A23)

Obtaining Sufficient Appropriate Evidence

- 28. The practitioner shall obtain sufficient appropriate evidence on which to base a conclusion. (Ref: Para. A24-A27)
- 29. When reporting on an entity's compliance with specified requirements as at a point in time or throughout a specified period of time, the practitioner shall evaluate activities performed by the entity to meet the specified requirements and assess the entity's compliance with specified requirements as at the point in time or throughout the specified period of time.

Written Representations

- 30. The practitioner shall request representations from management: (Ref: Para. A28)
 - (a) Acknowledging management's responsibility to comply with the specified requirements;
 - (b) Acknowledging management's responsibility for establishing and maintaining effective internal control over compliance with the specified requirements;
 - (c) Stating whether management has performed an evaluation of the entity's compliance with the specified requirements;

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- (d) When applicable, stating management's responsibility for significant interpretation of the specified requirements;
 - (e) Stating that the criteria used in the engagement are suitable;
 - (f) Stating that 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 the practitioner's report; and
 - (g) 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, the practitioner concludes.

Forming the Assurance Conclusion

- 31. The practitioner shall evaluate the sufficiency and appropriateness of the evidence obtained. If the practitioner becomes aware of a matter that leads the practitioner to question whether significant non-compliance exists, the practitioner shall perform further procedures sufficient to enable the practitioner to form a conclusion. (Ref: Para. A29-A30)
- 32. As soon as practicable, the practitioner shall make management aware of significant non-compliance that has come to the practitioner's attention. (Ref: Para. A31)
- 33. The practitioner shall form a conclusion about whether the entity complied with the specified requirements, in all significant respects.

Preparing the Practitioner's Report on Compliance

Content of the Practitioner's Report on Compliance

- 34. The practitioner's report on compliance shall include, at a minimum, the following basic elements:
 - (a) A title that clearly indicates that the practitioner's report is an independent practitioner's assurance report.
 - (b) An appropriate addressee as required by the circumstances of the engagement.
 - (c) An identification or description of the level of assurance obtained by the practitioner.
 - (d) Identification of the specified requirements and significant interpretations, if any, including the point in time or period of time to which the measurement or evaluation of compliance relates. (Ref: Para. A32-A33)

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- (e) A description of management's responsibility for the entity's compliance with the specified requirements.
 - (f) A description of the practitioner's responsibility to express a reasonable assurance opinion or a limited assurance conclusion on the entity's compliance with the specified requirements.
 - (g) A statement that:
 - (i) The engagement was performed in accordance this CSAE; and
 - (ii) (This CSAE requires that the practitioner plan and perform the engagement to obtain either reasonable assurance or limited assurance about whether the entity complied with specified requirements.
 - (h) A statement that the firm of which the practitioner is a member applies CSQC 1,⁵ or other professional requirements, or requirements in law or regulation, that are at least as demanding as CSQC 1. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as CSQC 1.
 - (i) A statement that the practitioner complies with the independence and other ethical requirements of 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, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding.
 - (j) In a reasonable assurance engagement, a statement that the practitioner believes the evidence obtained is sufficient and appropriate to provide a basis for the practitioner's audit opinion.
 - (k) An informative summary of the work performed as a basis for the practitioner's conclusion. In the case of a limited assurance engagement, an appreciation of the nature, timing and extent of procedures performed is essential to understanding the practitioner's conclusion. In a limited assurance engagement, the summary of the work performed shall state that:

⁵ CSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*

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- (i) The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement; and
 - (ii) Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.
- (l) A statement that the engagement is not a legal analysis of the entity's compliance with specified requirements. (Ref: Para. A34)
- (m) The practitioner's conclusion: (Ref: Para. A35-A36)
- (i) When appropriate, the conclusion shall inform the intended users of the context in which the practitioner's conclusion is to be read.
 - (ii) In a reasonable assurance engagement, the conclusion shall be expressed in a positive form.
 - (iii) In a limited assurance engagement, the conclusion shall be expressed in a form that conveys whether, based on the procedures performed and evidence obtained, a matter has come to the practitioner's attention to cause the practitioner to believe that the entity is not in compliance, in all significant respects, with the specified requirements.
 - (iv) The conclusion in (ii) or (iii) shall be phrased in terms of whether the entity complied with specified requirements, in all significant respects.
- (n) The practitioner's signature.
- (o) The date of the practitioner's report, which shall be no earlier than the date on which the practitioner has obtained the evidence on which the practitioner's conclusion is based.
- (p) The location in the jurisdiction where the practitioner practices.

Practitioner's Report Prescribed by Law or Regulation

35. In some cases, law or regulation prescribes the layout or wording of the practitioner's report. In these circumstances, the practitioner shall consider the substance and wording prescribed and, when necessary, shall make appropriate changes. (Ref: Para. A40)

Modified Conclusions

36. The practitioner shall express a modified conclusion when the practitioner concludes that:
- (a) The entity has not complied, in all significant respects, with the specified requirements; or
 - (b) A scope limitation exists and the effect of the matter could be significant.
(Ref: Para. A41)
37. The practitioner shall describe the matter giving rise to the modification in the practitioner's report on compliance and the practitioner's opinion shall be modified in accordance with CSAE 3000. (Ref: Para. A42-A43)

Application and Other Explanatory Material

Scope of this CSAE (Ref: Para. 1-13)

- A1. Direct engagements to report on compliance with specified requirements are conducted in both the private and public sectors. In either case, the engaging party will usually be the entity responsible for complying with the specified requirements that are the subject of the engagement.
- A2. The practitioner is not required to have been engaged to report on the financial statements of the entity in order to conduct an engagement in accordance with this CSAE. Also, this CSAE does not affect the practitioner's responsibility in an audit of financial statements performed in accordance with Canadian Auditing Standards (CASs), in particular, the need to meet the requirements in CAS 250.⁶
- A3. When the practitioner is engaged to express an audit opinion or a review conclusion on whether financial information has been prepared, in all material respects, in accordance with an applicable framework, the practitioner would follow the requirements of CAS 805⁷ or CSRE 2400,⁸ respectively, when auditing or reviewing such information. Both CAS 805 and CSRE 2400 apply to historical financial information. Therefore, it would not be appropriate to follow those standards when reporting on compliance with specified requirements.
- A4. The practitioner may calculate net current assets, according to a financial reporting framework as set out in a covenant in a lending agreement. Depending on the needs of the entity and the users of the practitioner's report, the practitioner may conclude that the purpose of the engagement is either to report whether:

⁶ CAS 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

⁷ CAS 805, *Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

⁸ CSRE 2400, *Engagements to Review Historical Financial Information*

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- (a) The entity complied with the covenant, which is a compliance engagement conducted under this CSAE; or
 - (b) The calculation of net current assets has been prepared in accordance with the applicable financial reporting framework set out in the lending agreement, which is not a compliance engagement under this CSAE and would be conducted in accordance with the CASs or CSRE 2400.

Considerations Specific to Engagements in the Public Sector

- A5. Auditors of public sector entities, such as federal, provincial and municipal governments, may be required by their mandates to express an opinion on whether an entity complied with specified authorities or whether its transactions were carried out in compliance with specified authorities. Under such mandates, the identification of specific authorities to be complied with and the selection of matters to be examined could be at the discretion of the practitioner. As a result, in fulfilling their mandates, practitioners need to determine whether to follow this CSAE or CSAE 3530.
- A6. Auditors of public sector entities may also be required to express an assurance opinion on whether the transactions that have come to their notice in the course of discharging their other audit responsibilities were carried out in compliance with specified authorities. These engagements are addressed in AuG-49.⁹

Objectives (Ref: Para. 15)

- A7. The practitioner may be asked to provide assurance on an entity's compliance with specified requirements as at a point in time (for example, as at the year end of the entity). Alternatively, the engagement may cover a period of time (for example, the fiscal year of the entity). In some cases, the period covered may differ from that of the audit of the financial statements of the entity.

Definitions (Ref: Para. 16)

- A8. An entity's internal control over compliance is the process by which management obtains assurance of the entity's compliance with specified requirements. Although management's internal control may include a wide variety of objectives and related policies and procedures, only some of these may be relevant to an entity's compliance with specified requirements. An entity's internal control over compliance may vary based on the nature, extent and complexity of the specified requirements. For example, internal control over compliance with a capital requirement would generally include accounting

⁹ [Proposed] ASSURANCE AND RELATED SERVICES GUIDELINE AuG-49, Reporting on Compliance with Specified Authorities for Transactions Coming to the Auditor's Notice during the Audit of Financial Statements

procedures, whereas internal control over compliance with a requirement to practice non-discriminatory hiring may not include accounting procedures.

Acceptance and Continuance (Ref: Para. 17-18)

- A9. In an engagement letter, a written acknowledgment is the most appropriate form of documenting a mutual understanding of the respective responsibilities of management and the practitioner regarding compliance with specified requirements. In the absence of a written acknowledgment by management, it may still be appropriate for the practitioner to accept the engagement if other sources, such as legislation or a contract, indicate the entity's responsibility. In other cases, it may be appropriate to decline the engagement, or to disclose the circumstances in the practitioner's report, depending on the circumstances.
- A10. Reports on compliance with specified requirements are different from reports on financial statements or other historical financial information and may require professional expertise other than that required to perform an audit or review of financial statements or other historical financial information. Engagements to report on compliance with specified requirements would be accepted only when the specified requirements to be reported on deal with matters within the practitioner's professional expertise.
- A11. Evaluating compliance with specified requirements may require interpretation of the agreement, specified authority, or a provision thereof that establish those requirements. If interpretations are significant, the practitioner is required by paragraph 34(d) to include a paragraph in the practitioner's report on compliance describing the interpretations.

Planning and Performing the Engagement

Significance (Ref: Para. 21)

- A12. The practitioner applies the same considerations in both limited assurance and reasonable assurance engagements regarding what represents significant non-compliance, since such judgments are not affected by the level of assurance.
- A13. The practitioner's consideration of significance is affected by:
- (a) The nature of the specified requirements, which may or may not be quantifiable in monetary terms;
 - (b) Qualitative considerations, including the needs and expectations of the report's users and the practitioner's perception of the common information needs of intended users as a group; and
 - (c) Matters encountered during the course of the engagement that may give rise to a need to reconsider significance.

A14. Significance is normally considered in the context of quantitative and qualitative factors, such as the following:

- The relative magnitude of instances of detected or suspected non-compliance;
- The nature and extent of the effect of these factors on the evaluation of compliance with the specified requirements; and
- The interests of the intended users.

The assessment of significance and the relative importance of quantitative and qualitative factors in a particular engagement are matters for the practitioner's professional judgment.

Understanding the Entity and Its Environment and the Specified Requirements
(Ref: Para. 22-23)

A15. In understanding the specified requirements, the practitioner identifies and assesses the risks of significant non-compliance. In a simple engagement, this risk assessment may not be onerous. Further, if the practitioner is also responsible for the audit or review of the entity's historical financial statements, the practitioner may be able to use evidence obtained during that engagement regarding risks of significant non-compliance for purposes of this compliance engagement.

A16. The practitioner's understanding is sufficient to assess the risks that the entity is significantly non-compliant with the specified requirements.

A17. In obtaining an understanding of the specified requirements, the practitioner may consider the following:

- Agreements or specified authorities that pertain to the specified requirements, including published requirements;
- Knowledge about the specified requirements obtained through prior engagements and regulatory reports;
- Knowledge about the specified requirements obtained through discussions with appropriate individuals within the entity (for example, the chief financial officer, internal auditors, legal counsel, compliance officer, or grant or contract administrators); and
- Knowledge about the specified requirements obtained through discussions with appropriate individuals outside the entity (for example, a regulator). This may include reviewing reports of examinations, if any, relevant to the engagement and related communications between the relevant parties.

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- A18. In some cases, the specified requirements with which the entity is required to comply represent only a portion of an agreement or specified authority. The practitioner's understanding of the specified requirements is intended to enable the practitioner to identify which aspect of the agreement or specified authority is applicable to the engagement.
- A19. Obtaining an understanding of the specified requirements is an essential part of planning and performing the compliance engagement. That understanding provides the practitioner with a frame of reference for exercising professional judgment throughout the compliance engagement, for example, when:
- Identifying when special consideration may be necessary, such as factors indicative of fraud and the need for specialized skills or the work of an expert;
 - Establishing and evaluating the continued appropriateness of quantitative significance levels, when appropriate, and considering qualitative significance factors;
 - Designing and performing further procedures to obtain sufficient appropriate evidence; and
 - Evaluating evidence, including the reasonableness of management's oral and written representations.

Criteria and Significant Interpretation (Ref: Para. 24-26)

- A20. When the practitioner develops criteria or significant interpretations that are specific to the engagement, it is desirable for relevant parties, including intended users, to acknowledge that specifically developed criteria or significant interpretations are suitable for their purposes. The practitioner may also ask the relevant parties to assist in developing the criteria.
- A21. 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 compliance with the specified requirements. If such a change has been appropriately applied, this change does not give rise to a need to express a modified opinion.

Considerations Specific to Engagements in the Public Sector

- A22. Governments and other entities in the public sector may be subject to the provisions of numerous authorities. In understanding the entity in the public sector and its environment, the practitioner may require knowledge of, and familiarity with, the authorities that apply to the entity, and the transactions for which it is responsible. Because the wording of these authorities may be subject to differing interpretations, the practitioner may wish to obtain independent legal advice, particularly when there is reason to believe that authorities are being

misinterpreted or that subordinate authorities do not adhere to the directions or limits prescribed by enabling legislation.

Obtaining Evidence

Risk Consideration and Responses to Risks (Ref: Para. 27)

A23. In performing the risk assessment for a reasonable assurance engagement or, for a limited assurance engagement, identifying areas where significant non-compliance with the specified requirements is likely to arise, the practitioner may consider the following factors:

- The nature of the specified requirements. Certain information may be more susceptible to misstatement (for example, when estimates must be made, when compliance is subjective versus objective or when information is complex versus simple).
- The entity's process for ensuring compliance, including controls in place and whether those controls are preventive or detective in nature, and manual or automated.
- Whether the entity has been subject to the specified requirements for a number of years. In the first year of reporting compliance with specified requirements, the risk of misstatement may be higher.
- The extent to which the risk of fraud is relevant to the engagement.
- Indicators of possible management bias, whether intentional or unintentional.

Obtaining Sufficient Appropriate Evidence (Ref: Para. 28-29)

A24. In a limited assurance engagement to report on compliance with specified requirements, the nature, timing and extent of the practitioner's evaluation of activities undertaken to meet the specified requirements are ordinarily limited to discussion with the entity's personnel. In certain situations, the practitioner may also observe the system in operation and reperform an appropriate number of instances of significant activities to identify any non-compliance. Alternatively, the results of exception reporting, monitoring or other management controls may be examined to provide evidence of the operation of the activity rather than directly testing the activity.

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- A25. In a reasonable assurance engagement to report on compliance with specified requirements, in addition to discussion with the entity's personnel and observation of the activities, the practitioner ordinarily reperforms a sample of activities to provide sufficient appropriate evidence on which to base a conclusion. The results of exception reporting, monitoring or other management controls may be examined to reduce the extent of testing and evaluation of the operation of the activity, but do not eliminate it entirely.
- A26. The emphasis placed on the nature of various procedures as a source of evidence will likely differ, depending on the engagement circumstances. For example, the practitioner may judge it to be appropriate in the circumstances of a particular limited assurance engagement to place relatively greater emphasis on indirect evaluation of the entity's activities, such as inquiries of the entity's personnel, and relatively less emphasis on observation, reperformance or inspection, than may be the case for a reasonable assurance engagement.
- A27. If the practitioner is also responsible for the audit or review of the entity's historical financial statements, the practitioner may also consider the potential effect of non-compliance on the historical financial statements. If considered significant, the practitioner may need to extend the engagement to report on compliance with the specified requirements to determine whether the non-compliance results in historical financial statements that are misleading.

Written Representations (Ref: Para. 30)

- A28. If management does not provide the requested representations, the practitioner may not have sufficient evidence to support the practitioner's conclusion. The practitioner is required by CSAE 3001 to take appropriate actions (which may include expressing a qualified conclusion, disclaiming a conclusion, or withdrawing from the engagement, where withdrawal is possible under law or regulation).¹⁰

Forming the Assurance Conclusion (Ref: Para. 31-33)

Evaluation and Communication of Significant Non-compliance

- A29. The particular circumstances of the engagement are relevant to the practitioner's use of professional judgment in evaluating the significance of non-compliance.
- A30. In evaluating any non-compliance, the following are relevant:
- (a) Any legislative, regulatory, contractual or other requirements that may apply; and

¹⁰ CSAE 3001, paragraphs 61, 65 and A140

(b) The effect of such non-compliance on the decisions of the intended users of the compliance report and the practitioner's conclusion.

A31. The practitioner's communications with management may be made orally or in writing. The practitioner's decision whether to communicate orally or in writing is affected by factors including the following:

- The size, operating structure, legal structure and communications process of the entity;
- The nature, sensitivity and significance of matters to be communicated;
- The arrangements made with respect to periodic meetings or reporting of findings from the engagement; and
- The extent of ongoing contact and dialogue the practitioner has with the entity.

Preparing the Practitioner's Report on Compliance

Content of the Practitioner's Report on Compliance (Ref: Para. 34)

A32. The amount of detail provided by the practitioner in identifying the specified requirements and the significant interpretations, if any, will depend on the circumstances. For example, if a specified requirement is to maintain a minimum amount of working capital, it may not be necessary to identify that amount in the report. However, if the requirement is subjectively worded to "maintain adequate working capital," including the interpretation of "adequate" in the report provides more relevant information to the users of the report.

A33. The practitioner may also, but is not required to, disclose criteria used to measure or evaluate the entity's compliance with the specified requirements in the practitioner's report.

A34. In performing the engagement under this CSAE, because the practitioner is not an expert in legal matters, the practitioner is not in a position to make legal interpretations of the specified requirements. Therefore, the practitioner does not provide a legal analysis of the entity's compliance. However, such a report may be useful to legal counsel or others in making such determinations.

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- A35. CSAE 3001 requires the practitioner's conclusion to be phrased using appropriate words for the underlying subject matter and applicable criteria given the engagement circumstances.¹¹
- A36. In the case of a direct compliance engagement, this conclusion is phrased in terms of whether the entity complied with the specified requirements, in all significant respects.
- A37. The practitioner may indicate that the practitioner's report is intended solely for specific users and any intended restriction on the distribution or use of the report.
- A38. The practitioner's assurance report on compliance is usually issued separately but, in some cases, may be included in the practitioner's report accompanying the financial statements. CAS 700¹² and CSRE 2400¹³ include requirements and guidance when the practitioner addresses other reporting responsibilities in the practitioner's report on the financial statements.
- A39. The Appendix contains illustrations of practitioner's compliance reports incorporating the elements set out in paragraph 34.

Practitioner's Report Prescribed by Law or Regulation (Ref: Para. 35)

- A40. Information supplied by the entity to government authorities, trustees, insurers and other organizations may sometimes include a prescribed form of practitioner's report. Such reports may:
- Call for a certification of fact rather than an expression of opinion, or may call for an opinion on matters outside the scope of the practitioner's examination;
 - Omit essential wording; or
 - Be inappropriate in some other way.

Rather than making revisions to the report prescribed by law or regulation, it is preferable for the practitioner to attach an appropriately reworded report.

Modified Conclusions (Ref: Para. 36-37)

- A41. CSAE 3001 establishes requirements and provides guidance regarding the issuance of modified conclusions.

¹¹ CSAE 3001, paragraph 73(l)(iv)

¹² CAS 700, *Forming an Opinion and Reporting on Financial Statements*, paragraphs 38-39

¹³ CSRE 2400, paragraph 102

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- A42. The practitioner uses professional judgment to determine if non-compliance with the specified requirements is significant but not pervasive or significant and pervasive. Examples of qualified and adverse conclusions are:
- Qualified conclusion (an example for a significant but not pervasive misstatement) — “Based on the procedures performed and the evidence obtained, except for the effect of the matter described in the Basis for Qualified Conclusion section of our report, ABC Company complied, in all significant respects, with the specified requirements [list the requirements or refer to the requirements (for example, “the requirements listed in Attachment 1”)] and the interpretation set out above during the period [date] to [date] [or “as at [date]”].”
 - Adverse conclusion (an example for a significant and pervasive misstatement) — “Because of the significance of the matter described in the Basis for Adverse Conclusion section of our report, ABC Company does not comply with the specified requirements [list the requirements or refer to the requirements (for example, “the requirements listed in Attachment 1”)] and the interpretation set out above during the period [date] to [date] [or “as at [date]”].”
- A43. In some cases, the practitioner may also audit or review the entity’s financial statements. If the practitioner’s report on compliance containing a qualified or adverse opinion on the entity’s compliance with specified requirements is included in a document that also includes the practitioner’s audit or review report on the entity’s financial statements, the practitioner’s compliance report may indicate that the effect of the non-compliance was considered on the audit or review report on the entity’s financial statements. For example, the practitioner may include the following in the compliance report:
- “We considered the effect of these conditions on our audit [review] of the 20X1 financial statements. This report on ABC Company’s compliance with the specified requirements does not affect our audit [review] report dated [date of report] on those financial statements.”

Illustrations of Practitioner's Reports on Compliance

- Illustration 1: A practitioner's reasonable assurance report on the entity's compliance with specified requirements established in a funding agreement.
- Illustration 2: A practitioner's limited assurance report on an entity's compliance with specified requirements established in a lending agreement.

Illustration 1

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.

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] established in Funding Agreement X dated October 30, 20X0.

Management's Responsibility

Management is responsible for ABC Company's compliance with the [identify 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 [identify 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, *Special Considerations — 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. The nature, timing and extent of procedures selected depends on our professional judgment, including an assessment of the risks of significant non-compliance with the specified requirements, whether due to fraud or error.

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

Our engagement is not a legal analysis of ABC Company's compliance with specified requirements.

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 [identify the specified requirements] established in Funding Agreement X during the period January 1, 20X1 to December 31, 20X1, in all significant respects.

[Practitioner's signature]

[Date]

[Practitioner's address]

Illustration 2

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

- Limited assurance engagement of ABC Company's compliance with debt covenants with GHI Bank as at December 31, 20X1.
- An interpretation of the lending agreement was necessary.
- The entity is in compliance with the debt covenants.
- The practitioner is issuing an unqualified opinion.
- Distribution and use of the report is restricted.

INDEPENDENT PRACTITIONER'S LIMITED ASSURANCE REPORT ON COMPLIANCE

To GHI Bank

We have undertaken a limited assurance engagement of ABC Company's compliance, as at December 31, 20X1, with [identify the debt covenants] set out in the Lending Agreement dated January 1, 20X1 and the interpretation of the Lending Agreement [include interpretation].

Management's Responsibility

Management is responsible for ABC Company's compliance with [identify the debt covenants]. Management is also responsible for such internal control as management determines necessary to enable ABC Limited's compliance with [identify the debt covenants].

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the entity's compliance based on the evidence we have obtained. We conducted our limited assurance engagement in accordance with Canadian Standard on Assurance Engagements 3531, *Special Considerations — Direct Engagements to Report on Compliance*. This standard requires us to conclude whether anything has come to our attention that causes us to believe that ABC Limited did not comply with the specified requirements, in all significant respects.

In a limited assurance engagement, the practitioner performs procedures (primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures) and evaluates the evidence obtained.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and, consequently, the level of assurance obtained is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Our engagement is not a legal analysis of ABC Company's compliance with [identify the debt covenants].

Our Independence and Quality Control

We have complied with 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.

Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that ABC Company did not comply with [identify the debt covenants] set out in the Lending Agreement and the interpretation set out above as at December 31, 20X1, in all significant respects.

Restriction on Distribution and Use of Our Report

Our report is intended solely for ABC Company and GHI Bank and should not be distributed to or used by parties other than ABC Company or GHI Bank.

[Practitioner's signature]

[Date]

[Practitioner's address]

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