Exposure Draft
Auditing and Assurance Standards Board
Proposed Canadian Standard on
Assurance Engagements

Reports on Compliance with
Agreements, Statutes and
Regulations

September 2015

COMMENTS TO THE AASB MUST BE RECEIVED BY
DECEMBER 23, 2015

A PDF response form has been posted with this document to assist you in submitting your comments to the AASB. Alternatively, you may send comments via email (in Word format), to: ed.assurancestds@cpacanada.ca addressed to:

Eric Turner, CPA, CA
Director, Auditing and Assurance Standards
Auditing and Assurance Standards Board
277 Wellington Street West
Toronto ON M5V 3H2

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

Individuals and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the 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 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 exposure, to issue Canadian Standard on Assurance Engagements (CSAE) 3530, Reports on Compliance with Agreements, Statutes and Regulations, which 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.

Background

In January 2011, the AASB approved a project to replace Sections 5800, 5815 and 8600. This project involves redrafting these Sections in the clarity format and making revisions to align with new umbrella assurance standards CSAE 3000, Attestation Engagements Other than Audits or Reviews of Historical Financial Information, and CSAE 3001, Direct Engagements, which were issued in July 2015.

Main features of the Exposure Draft

The fundamental principles underlying proposed CSAE 3530 are consistent with those underlying Sections 5800, 5815 and 8600. However, certain aspects of proposed CSAE 3530 may differ significantly.

Alignment with CSAE 3000 and 3001

In March 2015, the AASB approved CSAE 3000 and CSAE 3001. These standards deal with assurance engagements other than audits or reviews of historical financial information. An engagement to report on compliance with the specified provisions of agreements, statutes and regulations is one example of such an engagement. CSAE 3000 and CSAE 3001 are lengthy standards, containing a significant number of requirements for performing assurance engagements. While a practitioner could follow only these standards when performing an engagement to report on compliance with specified provisions of agreements, statutes and regulations, the AASB believes that a separate standard, highlighting particular areas relevant to these types of engagements, would assist practitioners in performing these engagements.

The AASB debated whether CSAE 3530 should be a “stand-alone” standard. That is, all the requirements and application material necessary to complete the engagement would be included in the standard. Since practitioners performing an attestation engagement other than audits or reviews of historical financial information and direct engagements are expected to have knowledge of CSAE 3000 and CSAE 3001,
respectively, creating a stand-alone standard would result in unnecessary duplication of material from CSAE 3000 and CSAE 3001. The AASB believes that it is more appropriate to include in proposed CSAE 3530 only those areas where an additional explanation is necessary for an engagement to report on specified provisions of agreements, statutes and regulations, and make appropriate cross references to CSAE 3000 and CSAE 3001.

Paragraph 7 of proposed CSAE 3530 explains its relationship with CSAE 3000 and CSAE 3001, noting that the practitioner is required to comply with CSAE 3000 or CSAE 3001, as appropriate to the circumstances.

Paragraph 8 of proposed CSAE 3530 highlights topics addressed in CSAE 3000 and CSAE 3001 that are not included in proposed CSAE 3530. The AASB has not identified anything in the requirements related to these topics that is specific to engagements to report on compliance with specified provisions of agreements, statutes and regulations. Therefore, there are no requirements or application material in proposed CSAE 3530 for these topics. The practitioner is still required to comply with these requirements under CSAE 3000 or CSAE 3001.

**Reasonable assurance and limited assurance**

Sections 5800 and 5815 deal with audits of compliance with agreements, statutes and regulations, while Section 8600 deals with review engagements. The AASB believes that the process followed, and many of the procedures performed, would be similar in either an audit or review of compliance with agreements, statutes and regulations. Therefore, both audit and review engagements are addressed in the proposed standard. This is consistent with the approach taken in other subject-matter-specific standards, such as CSAE 3410, *Assurance Engagements on Greenhouse Gas Statements*, and CSAE 3000 and CSAE 3001. Requirements that apply only to review engagements or audit engagements are presented in a columnar format, with the letter “L” to indicate limited assurance, or review and “R” to indicate reasonable assurance or audit.

**Reporting**

Sections 5815 and 8600 contain reporting requirements and examples of reports that the practitioner may issue. Reporting requirements have changed significantly since Sections 5815 and 8600 were issued. Paragraph 24 of proposed CSAE 3530 contains reporting requirements that are consistent with those in CSAE 3000 and CSAE 3001, but are significantly more detailed than in Sections 5815 and 8600. Proposed CSAE 3530 also contains illustrative reports to assist practitioners in the application of the reporting requirements.
Effective date

Subject to input the AASB receives from Canadian stakeholders, proposed CSAE 3530 would be effective for engagements to report on compliance with specified provisions of agreements, statutes or regulations where the practitioner’s report is issued on or after June 30, 2017. Earlier adoption would be permitted. In the AASB’s view, the proposed effective date would allow sufficient time for implementation of CSAE 3530.

Comments requested

The AASB requests comments on any aspect of proposed CSAE 3530. 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 Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. When a respondent agrees with proposals in the Exposure Draft, it will be helpful for the AASB to be made aware of this view.

The AASB is seeking views on the following questions:

1. Do you agree that proposed CSAE 3530 need not “stand alone”, but rather provide additional requirements and application material to assist practitioners in the application of CSAE 3000 or CSAE 3001 to engagements to report on compliance with specified provisions of agreements, statutes and regulations?

2. Does proposed CSAE 3530 address all the areas specific to these types of engagements, or are additional requirements needed to assist practitioners in the application of CSAE 3000 or CSAE 3001?

3. Do you agree that both audits and reviews should be addressed in one standard?

4. Has the AASB appropriately identified those requirements where a review engagement would differ from an audit engagement? If not, are there other requirements that should be similarly split?

5. Do the requirements appropriately reflect how you currently complete engagements to report on compliance?

6. Do you agree with the proposed reporting requirements?

7. Do you agree with the proposed effective date?

The deadline for providing your comments to the AASB on the above is December 23, 2015.

For your convenience, a PDF response form has been posted with this document. You can save the form both during and after its completion for future reference. Alternatively, written comments may be submitted by email (Word format preferred) to: ed.assurancestds@cpacanada.ca
PROPOSED CANADIAN STANDARD ON ASSURANCE ENGAGEMENTS (CSAE) 3530, REPORTS ON COMPLIANCE WITH AGREEMENTS, STATUTES AND REGULATIONS

(Effective for assurance engagements where the practitioner’s report is dated on or after June 30, 2017)

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Introduction

Scope of this CSAE

1. This Canadian Standard on Assurance Engagements (CSAE) deals with audit (reasonable assurance) or review (limited assurance) engagements to report on an entity’s compliance with specified provisions of agreements, statutes or regulations. This engagement may be an attestation engagement or a direct engagement. (Ref: Para. A1-A4)

2. The practitioner would refer to Section PS 5300 when the practitioner is engaged or required to:

   (a) Express an opinion on whether an entity complied with specified authorities or whether its transactions were carried out in compliance with specified authorities;

   (b) Express an 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; or

   (c) Report instances of non-compliance with authorities observed in the course of discharging their audit responsibilities.

3. 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 250.2

4. 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 whether funding received by an entity was spent for the intended purposes established by an agreement or regulation.

   • Reporting on an entity’s compliance with specified provisions of leasing agreements.

   • Reporting on an entity’s compliance with covenants contained in loan agreements or bond indentures.

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1 AUDITING FOR COMPLIANCE WITH LEGISLATIVE AND RELATED AUTHORITIES IN THE PUBLIC SECTOR, Section PS 5300

2 CAS 250, Consideration of Laws and Regulations in an Audit of Financial Statements
5. When the practitioner is engaged to express an audit opinion or a review conclusion on the financial information used to determine compliance with specified provisions of agreements, statutes or regulations, the practitioner would follow the requirements of CAS 805\(^3\) or Section 8200,\(^4\) respectively, when auditing or reviewing such information.

6. 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.

**Relationship with CSAE 3000 or CSAE 3001**

7. When performing an engagement within the scope of this CSAE, in addition to complying with this CSAE, the practitioner is required to comply with CSAE 3000\(^5\) or CSAE 3001,\(^6\) depending on the type of engagement the practitioner undertakes. This CSAE supplements, but does not replace, CSAE 3000 or CSAE 3001, and expands on how CSAE 3000 or CSAE 3001 is to be applied in an audit or review of compliance with specified provisions of agreements, statutes and regulations.

8. CSAE 3000 is applicable to all attestation engagements, and CSAE 3001 is applicable to all direct engagements, that fall within the scope of this CSAE and provide requirements and application material for topics not specifically addressed in this CSAE, including:

- Ethical requirements;
- Quality control;
- Professional skepticism, professional judgment, and assurance skills and techniques;
- Using the work of a practitioner’s expert;
- Using the work of another practitioner, an entity’s expert or an internal auditor;
- Description of applicable criteria;

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\(^3\) CAS 805, *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

\(^4\) PUBLIC ACCOUNTANT’S REVIEW OF FINANCIAL STATEMENTS, Section 8200

\(^5\) CSAE 3000, *Attestation Engagements Other than Audits or Reviews of Historical Financial Information*

\(^6\) CSAE 3001, *Direct Engagements*
• Reporting when the entity’s management has identified and properly described that the subject matter information is materially misstated; and

• Documentation.

Effective Date

9. This CSAE is effective for assurance engagements to report on compliance with specified provisions of agreements, statutes and regulations where the practitioner’s report is dated on or after June 30, 2017.

Objectives

10. In providing assurance on an entity’s compliance with specified provisions of agreements, statutes or regulations 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:

(i) In a direct engagement, the entity has complied, in all significant respects with specified provisions, based on the applicable criteria; or

(ii) In an attestation engagement, management’s assertion about an entity’s compliance with specified provisions is appropriate, in all material respects, based on the applicable criteria; and

(b) Express a conclusion that conveys either reasonable assurance or limited assurance on the matters noted in (a)(i) or (ii) in accordance with the practitioner’s findings. (Ref: Para. A5)

Definitions

11. For purposes of this CSAE, the following terms have the meanings attributed below:

(a) Compliance with specified provisions – An entity’s compliance with specified provisions of agreements, statutes or regulations that fall within the scope of the engagement.

(b) Criteria – The provisions of the agreement, statute or regulation that are the focus of the engagement, together with any interpretations necessary.

(c) Internal control over compliance – An entity’s internal control over compliance with specified provisions. The internal control addressed in this CSAE may include part of, but is not the same as, internal control over financial reporting. (Ref: Para. A6)

(d) Material non-compliance – In an attestation engagement, a material misstatement of management’s assertion that it has complied with specified
provisions when that is not the case or, in a direct engagement, a material deviation from the specified provisions. A misstatement or deviation can be quantitatively or qualitatively material, either individually or when aggregated with other misstatements or 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.

Requirements

Conduct of the Engagement in Accordance with CSAEs

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

Complying with Relevant Requirements

13. 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 review (limited assurance) engagements or audit (reasonable assurance) engagements have been presented in a columnar format with the letter “L” (review, or limited assurance) or “R” (audit, or reasonable assurance) after the paragraph number. Although some procedures are required only for audit engagements, they may nonetheless be appropriate in some review engagements.

Acceptance and Continuance

14. Before accepting an engagement to report on an entity’s compliance with specified provisions of agreements, statutes or regulations, the practitioner shall:

(a) Be satisfied that the roles and responsibilities of the relevant parties are suitable in the circumstances; (Ref: Para. A7)

(b) Be satisfied that the underlying subject matter is within the professional expertise of the engagement team; and (Ref: Para. A8)

(c) Consider whether the specified provisions of the relevant agreement, statute or regulation provide criteria, or can be used as the basis for developing applicable criteria, that are suitable for the engagement circumstances. (Ref: Para. A9)
Planning and Performing the Engagement

Materiality

15. The practitioner shall consider materiality in planning and performing the engagement. (Ref: Para. A10-A11)

Understanding the Entity and its Environment and Specified Provisions of an Agreement, Statute or Regulation

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<th>Limited Assurance</th>
<th>Reasonable Assurance</th>
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<td>16L. The practitioner shall obtain an understanding of the entity and its environment and the specified provisions of the relevant agreement, statute or regulation, sufficient to:</td>
<td>16R. The practitioner shall obtain an understanding of the entity and its environment and the specified provisions of the relevant agreement, statute or regulation, sufficient to:</td>
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<td>(a) Enable the practitioner to identify areas where material non-compliance with the specified provisions is likely to arise; and</td>
<td>(a) Enable the practitioner to identify and assess the risks of material non-compliance with the specified provisions; and</td>
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<td>(b) Provide a basis for designing and performing procedures to address the areas identified in paragraph 16L(a) and to obtain limited assurance to support the practitioner’s conclusion. (Ref: Para. A14-A15)</td>
<td>(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. A12-A15)</td>
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Applicable Criteria

17 If it is discovered after the engagement has been accepted that the specified provisions of an agreement, statute or regulation require significant interpretation to provide applicable criteria that are suitable for the engagement circumstances, the practitioner shall, if practicable:

(a) Develop, in consultation with relevant parties, the necessary interpretations; and

(b) Seek acknowledgement from the responsible party that the interpretations are appropriate.
If the necessary interpretations cannot be developed, or if acknowledgement of appropriateness cannot be obtained, the practitioner shall consider the effect, if any, on the practitioner’s work and report. (Ref: Para. A16)

Obtaining Evidence

18 The practitioner shall obtain sufficient appropriate evidence on which to base the conclusion. (Ref: Para. A17-A19)

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<th>Limited Assurance</th>
<th>Reasonable Assurance</th>
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<td>19L. If there are reports of significant examinations relevant to the engagement and related communications between regulatory agencies and the entity, at a minimum, the practitioner shall discuss such reports and communications with management.</td>
<td>19R. If there are reports of significant examinations relevant to the engagement and related communications between regulatory agencies and the entity, the practitioner shall obtain and read such reports and communications. When appropriate, the practitioner shall also make inquiries of the regulatory agencies, including inquiries about examinations in progress.</td>
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Written Representations

20 The practitioner shall request representations from the responsible party:

- (a) Acknowledging the responsible party’s responsibility for establishing and maintaining effective internal control over compliance with the specified provisions;
- (b) Stating whether the responsible party has performed an evaluation of the entity’s compliance with the specified provisions;
- (c) When applicable, in an attestation engagement, stating the responsible party’s interpretation of any compliance requirements or, in a direct engagement, stating that the responsible party agrees with the practitioner’s interpretations of any compliance requirements;
- (d) Stating that the responsible party has disclosed any communications from counterparties to agreements, regulatory agencies, internal auditors and others concerning possible non-compliance with the specified provisions, including communications received between the end of the period addressed in the written assertion and the date of the practitioner’s report; and
(e) Stating that the responsible party has disclosed any known non-compliance with the specified provisions occurring during the period or subsequent to the period for which, or date as of which, the responsible party selects to make its assertion.

Subsequent Events

21. The practitioner shall consider the effect of events up to the date of the practitioner’s report on compliance on:

(a) That report; and

(b) For attestation engagements, on management’s assertion about compliance with specified provisions.

The practitioner shall respond appropriately to facts that become known to the practitioner after the date of the practitioner’s report on compliance that, had they been known to the practitioner at that date, may have caused the practitioner to amend the practitioner’s report on compliance. However, the practitioner has no responsibility to perform any procedures regarding compliance after the date of the practitioner’s report on compliance.

(Ref: Para. A20)

Forming the Assurance Conclusion

22. 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. A21-A22)

23. The practitioner shall make the responsible party aware, as soon as practicable, of material non-compliance that has come to the practitioner’s attention. (Ref: Para. A23)

24. The practitioner shall form a conclusion about:

(a) In a direct engagement, whether the entity has complied, in all significant respects, with the specified provisions; or

(b) In an attestation engagement, whether management’s assertion about the entity’s compliance with the specified provisions is appropriate, in all material respects.

Preparing the Practitioner’s Report on Compliance

Practitioner’s Report on Compliance Content

25. The practitioner’s report on compliance shall include, at a minimum, the following basic elements:
(a) A title that clearly indicates that the 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 and the specified provisions (or, in an attestation engagement, management’s assertion thereon), including the point in time or period of time to which the measurement or evaluation of compliance relates.

(d) A description of management’s responsibilities:
   (i) In a direct engagement, for measuring and complying with the specified provisions; or
   (ii) In an attestation engagement, for its assertion regarding the entity’s measurement and compliance with specified provisions.

(e) A description of the practitioner’s responsibility to express an audit opinion or a review conclusion:
   (i) In a direct engagement, on the entity’s compliance with the specified provisions; or
   (ii) In an attestation engagement, on management’s assertion regarding the entity’s compliance with the specified provisions.

(f) For an attestation engagement, a statement alerting readers to the fact that the engagement is designed for a specific purpose and that, as a result, the report may not be suitable for another purpose.

(g) A statement that:
   (i) The engagement was performed in accordance with CSAE 3530, *Reports on Compliance with Agreements, Statutes and Regulations*; and
   (ii) CSAE 3530 requires that the practitioner plan and perform the engagement to obtain either reasonable assurance or limited assurance about whether:
       a. In a direct engagement, the entity complied, in all significant respects, with the specified provisions, based on the applicable criteria, or
       b. In an attestation engagement, management’s assertion about its compliance with specified provisions is appropriate, in all material respects.
(h) A statement that the firm of which the practitioner is a member applies CSQC 1, 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 an audit 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 review engagement, an appreciation of the nature, timing and extent of procedures performed is essential to understanding the practitioner's conclusion. In a review engagement, the summary of the work performed shall state that:

(i) The procedures performed in a review engagement vary in nature and timing from, and are less in extent than for, an audit engagement; and

(ii) Consequently, the level of assurance obtained in a review engagement is substantially lower than the assurance that would have been obtained had an audit engagement been performed.

(l) A statement that the engagement is not a legal analysis of the entity's compliance with specified provisions. (Ref: Para. A24)

(m) The practitioner's conclusion:

(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 an audit engagement, the conclusion shall be expressed in a positive form.

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7 CSQC 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements
(iii) In a review 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 all material respects, in compliance with the specified provisions.

(iv) The conclusion in (ii) or (iii) shall be phrased in terms of whether:

a. In a direct engagement, the entity complied, in all significant respects, with the specified compliance provisions; or

b. In an attestation engagement, management’s assertion about its compliance with specified provisions is appropriate, in all material respects.

(n) The practitioner’s signature.

(o) The date of the 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.

26. As required by paragraph 25(c), the practitioner’s report will identify or describe the specified provisions. In some cases, those specified provisions may constitute all aspects of the applicable criteria for the engagement. However, if the specified provisions do not constitute all aspects of the applicable criteria or if significant interpretations of the provisions are necessary, the practitioner shall identify the criteria, including a description of any significant interpretations made in the practitioner’s report. (Ref: Para. A25-A27)

Assurance Report Prescribed by Law or Regulation

27. When requested to report in prescribed form on compliance with specified provisions of an agreement, statute or regulation, the practitioner shall consider the substance and wording of the prescribed form and, when necessary, shall make appropriate changes. (Ref: Para. A30)

Modified Conclusions

28. 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 provisions;

(b) Management’s assertion is not fairly stated; or

(c) A scope limitation exists and the effect of the matter could be material. (Ref: Para. A31)
29. The practitioner shall describe material non-compliance in the practitioner’s report and the practitioner’s opinion shall be modified in accordance with CSAE 3000 or CSAE 3001, as appropriate. (Ref: Para. A32)

Application and Other Explanatory Material

Scope of this CSAE (Ref: Para. 1-8)

A1. Engagements to report on compliance with agreements, statutes or regulations may be either attestation engagements or direct engagements. In an attestation engagement, management of the entity prepares a statement (or assertion) on compliance with specified provisions for an external party and the practitioner reports on this statement (or assertion). For example, in an engagement to audit an entity’s compliance with covenants in a banking agreement, management prepares a report for the bank stating that covenants have been met. The practitioner obtains an understanding of the covenants in the banking agreement, performs procedures on the information relevant to determining whether the entity has complied with the covenants and 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 appropriate, in all material respects, based on the applicable criteria. A representation from management to the practitioner on the entity’s compliance with the covenants does not constitute a public statement or assertion.

A2. On the other hand, in a direct engagement, management does not prepare a statement on compliance with specified provisions 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 obtains an understanding of the established wait times, performs procedures to assess actual wait times and 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 management has complied in all material respects with the government requirements.

A3. For a simple engagement, the procedures may not be significantly different between an attestation and a direct engagement. However, where the specified provisions are more complicated or complex, the practitioner’s procedures may be substantially different. For example, if management has no obligation to attest to its compliance, internal control over compliance may be less rigorous or not as well documented as would otherwise be the case. This may require the practitioner to perform more or different procedures to obtain the required understanding of internal control over compliance.

A4. Compliance requirements may be either financial or non-financial in nature.
Objectives (Ref: Para. 10)

A5. The practitioner may be asked to provide assurance on compliance with specified provisions 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. 11)

A6. An entity’s internal control over compliance is the process by which management obtains assurance of compliance with specified provisions. Although the responsible party’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 provisions. An entity’s internal control over compliance may vary based on the nature, extent and complexity of the compliance provisions. 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.

Acceptance and Continuance (Ref: Para. 14)

A7. In an engagement letter, a written acknowledgement is the most appropriate form of documenting a mutual understanding of the respective responsibilities of the responsible party and the practitioner regarding compliance with specified provisions. In the absence of a written acknowledgement by the responsible party, 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 depending on the circumstances, or to disclose the circumstances in the assurance report.

A8. Reports on compliance with specified provisions are different from reports on financial statements or other financial information and may require professional expertise other than that required to perform an audit or review of financial statements or other information. Engagements to report on compliance with specified provisions would be accepted only when the specified provisions of the agreement, statute or regulation to be reported on deal with matters within the practitioner’s professional expertise.

A9. In some cases, the agreement, statute or regulation prescribes the criteria to be used for the engagement. In the absence of indications to the contrary, such as the existence of matters that require significant interpretation, such criteria are presumed to be suitable.
Planning and Performing the Engagement

Materiality (Ref: Para. 15)

A10. The practitioner’s consideration of materiality is affected by:

(a) The nature of the specified provisions, which may or may not be quantifiable in monetary terms;

(b) Qualitative considerations, including the needs and expectations of the report’s users; and

(c) Matters encountered during the course of the engagement that may give rise to a need to reconsider materiality.

A11. Materiality is normally considered in the context of quantitative and qualitative factors, such as 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 provisions as measured by the applicable criteria, 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 Specified Provisions of an Agreement, Statute or Regulation (Ref: Para. 16)

A12. In understanding the specified provisions of an agreement, statute or regulation, 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 the purposes of this compliance engagement.

A13. The practitioner’s understanding is sufficient to assess the risks that the entity is materially non-compliant with the specified provisions as measured by the applicable criteria.

A14. In obtaining an understanding of the specific provisions, the practitioner may consider the following:

- Agreements, statutes or regulations that pertain to the specified provisions, including published requirements;

- Knowledge about the specified provisions obtained through prior engagements and regulatory reports;

- Knowledge about the specified provisions 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 provisions obtained through discussions with appropriate individuals outside the entity (for example, a regulator).

A15. Obtaining an understanding of the specified provisions, including applicable criteria and other engagement circumstances, 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 where 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, where appropriate, and considering qualitative materiality factors.
- Designing and performing further procedures to obtain sufficient appropriate evidence.
- Evaluating evidence, including the reasonableness of management’s oral and written representations.

Applicable Criteria (Ref: Para. 17)

A16. Evaluating compliance with specified provisions may require interpretation of the agreements, statutes or regulations that establish those requirements. If interpretations are significant, the practitioner may include a paragraph in the report describing the interpretations and identifying the source of the interpretations made by the entity’s management.

Obtaining Evidence (Ref: Para. 18-19R)

A17. In obtaining evidence about whether the entity is in compliance with the specified provisions, the practitioner may:

- Make inquiries concerning how management monitors the entity’s compliance with the specified provisions; and
- Consider the consistency between periods in the application of interpretations of the specified provisions that management has made.

A18. The nature, timing and extent of procedures performed in a review engagement is limited compared with that necessary in an audit engagement.

A19. 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 audit of compliance with the specified provisions to determine whether the non-compliance results in historical financial statements that are misleading.

**Subsequent Events** (Ref: Para. 21)

A20. Whether a subsequent event is material to the practitioner’s report on compliance and, for an attestation engagement, management’s compliance assertion, is a matter of professional judgment for the practitioner. For example, the practitioner may become aware of a material non-compliance occurring in the subsequent period. That material non-compliance may be indicative of a previously unidentified systemic issue that may have affected compliance as at the point of time, or for the period of time, covered by the practitioner’s report on compliance and, therefore, may require the practitioner to perform additional procedures to resolve the matter and potentially result in a need to amend the audit opinion or review conclusion.

**Forming the Assurance Conclusion** (Ref: Para. 22-24)

*Evaluation and Communication of Material Non-compliance*

A21. Use of professional judgment by the practitioner in evaluating the materiality of non-compliance allows the practitioner to consider the particular circumstances of each engagement.

A22. In evaluating any non-compliance, the practitioner ordinarily considers:

- Materiality;
- Any relevant legislative, regulatory, contractual or other requirements that may apply; and
- The effect of such non-compliance on the decisions of the intended users of the compliance report and the practitioner’s conclusion.

A23. The practitioner’s communications with the responsible party may be made orally or in writing. Ordinarily, 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.
- The extent of ongoing contact and dialogue the practitioner has with the entity.
Preparing the Practitioner's Report on Compliance

Practitioner’s Report on Compliance Content (Ref: Para. 25-26)

A24. 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 provisions. 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.

A25. It is important for the practitioner to describe in detail the applicable criteria being used and the source of the criteria. This will assist the reader in understanding the context of the practitioner’s opinion and, in the case where criteria are identified without consultation with the relevant party, the appropriateness of the practitioner’s opinion to the relevant party’s purposes.

A26. The amount of detail provided by the practitioner in identifying the criteria will depend on the circumstances. For example, if a specified provision 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 criteria used to define “adequate” in the report provides more relevant information to the users of the report.

A27. Circumstances may arise when there is a change in a significant interpretation of specified provisions from that used in an immediately preceding engagement to report on compliance with those provisions. If such a change has been appropriately applied, and the practitioner describes such a change in the assurance report (for a direct engagement) or if such a change is adequately disclosed in management’s compliance assertion (for an attestation engagement), this change does not give rise to a need to express a reservation of opinion.

A28. To avoid the possibility of users placing undue reliance on the assurance report, the practitioner may wish to indicate the purposes for which the report is prepared and any intended restriction on the distribution or use of the report.

A29. 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.

Assurance Report Prescribed by Law or Regulation (Ref: Para. 27)

A30. 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, may omit essential wording, or may 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. 28-29)

A31. CSAE 3000 (or CSAE 3001, as appropriate), establish requirements and provide guidance regarding the issuance of modified conclusions.

A32. The practitioner uses professional judgment to determine if non-compliance with the specified provisions is material or pervasive. The practitioner’s report may include the following paragraph:

   During the year, the entity did not comply with the following [describe the provisions for which material non-compliance arose]. In our opinion, because of this non-compliance, the entity has not complied with the aforementioned requirements for the period.

A33. 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 provisions 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 [or review] of the 20XX financial statements. This report on XYZ Company’s compliance with [identify the specified provisions] does not affect our audit [or review] report dated [date of report] on those financial statements.

A34. In some cases, the entity may not be in compliance with the specified provisions and management of the entity has properly identified and described such non-compliance. In such cases, as required by CSAE 3000, the practitioner:

   - Expresses a qualified conclusion or adverse conclusion; or
   - If specifically required by the terms of the attestation engagement to refer to management’s statement, expresses an unqualified conclusion and includes 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 provisions.
Illustrations of Practitioner’s Reports on Compliance with Agreements, Statutes or Regulations

Illustration 1: A practitioner’s audit report under a direct engagement.

Illustration 2: A practitioner’s audit report under an attestation engagement.

Illustration 3: A practitioner’s review report under an attestation engagement.

Illustration 1

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

- Audit of compliance with an agreement for a period of time (that is, not as at a specific point in time).
- Management has not asserted to its compliance with the agreement (that is, the engagement is a direct engagement).
- The entity is in compliance with the specified provisions of the agreement for the period audited.

INDEPENDENT PRACTITIONER’S AUDIT REPORT ON COMPLIANCE WITH AGREEMENT

To A Trust Company Limited:

We have audited XYZ Limited’s compliance during the period [date] to [date] [or “as at [date]”] with [identify the compliance provisions by either listing the provisions or referring to the provisions (for example, “the provisions listed in Attachment 1”) described in Sections … to … inclusive of [name of agreement] dated ……, 20XX with [name of party to agreement] and the interpretation of such agreement [include interpretation, if applicable].

Management’s Responsibility

Management is responsible for complying with the specified provisions of the agreement.

Practitioner’s Responsibility

Our responsibility is to express an opinion on this compliance based on our audit. We conducted our audit in accordance with Canadian Standard on Assurance Engagements 3530, Reports on Compliance with Agreements, Statutes and Regulations. CSAE 3530 requires that we plan and perform an audit to obtain reasonable assurance about whether XYZ Limited complied, in all material respects, with the provisions of the agreement referred to above.
Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with this standard will always detect a material instance of non-compliance with agreement provisions 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 audit procedures selected depends on our professional judgment, including an assessment of the risks of material non-compliance, whether due to fraud or error, and involves examining evidence about compliance with the specified provisions.

We believe the evidence we obtained is sufficient and appropriate to provide a basis for our opinion. Information relevant to XYZ Limited’s compliance with the agreement provisions is set out in the schedule attached to this report.

Our audit is not a legal analysis of XYZ Limited’s compliance with specified provisions.

Our Independence and Quality Control

We have complied 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.

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, XYZ Limited complied, in all material respects, with [identify the specified compliance provisions by either listing the provisions or referring to the provisions (for example, “the provisions listed in Attachment 1”)] and the interpretation set out above during the period [date] to [date] [or “as at [date]”].

[Practitioner’s signature]
[Date]
[Practitioner’s address]
Illustration 2
For purposes of this illustrative practitioner’s report, the following circumstances are assumed:

- Audit of compliance with an agreement for a period of time (that is, not as at a specific point in time).
- Management has asserted to its compliance with the agreement (that is, the engagement is an attestation engagement).
- The entity is in compliance with the specified provisions of the agreement for the period audited.

INDEPENDENT PRACTITIONER’S AUDIT REPORT ON COMPLIANCE WITH AGREEMENT

To A Trust Company Limited:

We have audited management of XYZ Limited’s statement that XYZ Limited complied, during the period [date] to [date] [or “as at [date]“], with [identify the compliance provisions by either listing the provisions or referring to the provisions (for example, “the provisions listed in Attachment 1“)] described in Sections … to … inclusive of [name of agreement] dated ……, 20XX with [name of party to agreement] and the interpretation of such agreement [include interpretation, if applicable].

Management’s Responsibility

Management is responsible for its assertion regarding the entity’s measurement and compliance with the specified provisions of the agreement.

Practitioner’s Responsibility

Our responsibility is to express an opinion on management’s assertion based on our audit. We conducted our audit in accordance with Canadian Standard on Assurance Engagements 3530, Reports on Compliance with Agreements, Statutes and Regulations. CSAE 3530 requires that we plan and perform an audit to obtain reasonable assurance about whether management’s statement is appropriate, in all material respects.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with this standard will always detect a material instance of non-compliance with agreement provisions 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 audit 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 XYZ Limited’s compliance with the agreement
provisions is set out in the schedule attached to this report.

Our audit is not a legal analysis of XYZ Limited’s compliance with specified provisions.

Our Independence and Quality Control

We have complied 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.

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 XYZ Limited complied, in all material
respects, with [identify the specified compliance provisions by either listing the
provisions or referring to the provisions, for example, “the provisions listed in
Attachment 1”] and the interpretation set out above during the period [date] to [date] [or
“as at [date]”], is appropriate, in all material respects.

Restriction on Use

This report has been prepared to report on the entity’s compliance with [identify
provisions of the agreement]. As a result, the report may not be suitable for another
purpose.

[Practitioner’s signature]
[Date]
[Practitioner's address]
**Illustration 3**

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

- Review of compliance with an agreement for a period of time (that is, not as at a specific point in time).
- Management has asserted to its compliance with the agreement (that is, the engagement is an attestation engagement).
- The entity is in compliance with the specified provisions of the agreement for the period.

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**INDEPENDENT PRACTITIONER’S REVIEW REPORT ON COMPLIANCE WITH AGREEMENT**

To A Trust Company Limited

We have reviewed management of XYZ Limited’s statement that XYZ Limited complied, during the period [date] to [date] [or "as at [date]"], with [identify the compliance provisions by either listing the provisions or referring to the provisions (for example, “the provisions listed in Attachment 1”)] described in Sections … to … inclusive of [name of agreement] dated ……, 20XX with [name of party to agreement] and the interpretation of such agreement [include interpretation, if applicable].

**Management’s Responsibility**

Management is responsible for its assertion regarding the entity’s measurement and compliance with the specified provisions of the agreement.

**Practitioner’s Responsibility**

Our responsibility is to express a conclusion on management’s assertion based on our review. We conducted our review in accordance with Canadian Standard on Assurance Engagements 3530, *Reports on Compliance with Agreements, Statutes and Regulations*. CSAE 3530 requires us to conclude whether anything has come to our attention that causes us to believe that the management’s statement that XYZ Limited complied with the specified provisions is not, in all material respects, appropriate.

A review of an entity’s compliance with specified provisions of an agreement, statute or regulation is 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 review vary in nature and timing from, and are less in extent than for, an audit and, consequently, the level of assurance obtained is substantially lower than the assurance that would have been obtained had an audit engagement been performed.
Our review engagement is not a legal analysis of XYZ Limited's compliance with specified provisions.

Our Independence and Quality Control

We have complied 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.

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 our review, nothing has come to our attention that causes us to believe that management’s statement that XYZ Limited complied, in all material respects, with [identify the specified compliance provisions by either listing the provisions or referring to the provisions (for example, “the provisions listed in Attachment 1”) and the interpretation set out above during the period [date] to [date] [or “as at [date]”], is not appropriate, in all material respects.

Restriction on Use

This report has been prepared to report on the entity’s compliance with [identify provisions of the agreement]. As a result, the report may not be suitable for another purpose.

[Practitioner’s signature]
[Date]
[Practitioner’s address]
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