

**Reporting on Compliance
with Specified Authorities
for Transactions Coming
to the Auditor's Notice
during the Audit of Financial
Statements**

September 2018

Assurance and Related Services Guideline AuG-49

CPA Canada Handbook – Assurance

Prepared by the staff of the Auditing and Assurance Standards Board

This Basis for Conclusions has been prepared by staff of the Auditing and Assurance Standards Board (AASB). It relates to, but does not form part of, 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*.

Purpose of this Basis for Conclusions

This Basis for Conclusions provides a brief summary of the AASB's objectives in issuing AuG-49, the public exposure and approval steps for this project and how the Board dealt with significant matters arising from comments received in response to its Exposure Draft. This information is set out below.

Background

AuG-49 replaces AUDITING FOR COMPLIANCE WITH LEGISLATIVE AND RELATED AUTHORITIES IN THE PUBLIC SECTOR, paragraphs PS 5300.14-.16.

The AASB commenced a project in September 2015 to review the public sector auditing standards in the CPA Canada Handbook – Assurance. It formed a task force with seven members from various public sector organizations to conduct this review.

In August 2017, the AASB issued an Exposure Draft of AuG-49. Five written responses were received. The Board also consulted directly with public sector practitioners and management of public sector entities. Seven additional respondents provided feedback on the Exposure Draft.

The AASB approved AuG-49 in May 2018. The Auditing and Assurance Standards Oversight Council confirmed that the Board followed due process in developing AuG-49 and related consequential amendments prior to their issuance in the Handbook.

AASB's objectives in developing AuG-49

The AASB's objectives in developing AuG-49 included redrafting existing relevant material in Section PS 5300 in the clarity format and aligning the form of the report with revised Canadian Auditing Standard (CAS) 700, *Forming an Opinion and Reporting on Financial Statements*.

AuG-49 addresses the following public interest issues:

- providing guidance for auditors reporting on compliance with specified authorities for transactions coming to the auditor's notice during the audit of financial statements; and
- aligning the compliance opinion reporting to revised CAS 700, which is the standard that these matters are reported under.

Significant Matters

Form of the report

The Exposure Draft set out the contents of the compliance report as an "other reporting responsibility" for purposes of CAS 700. Respondents generally supported the proposed report. However, some respondents suggested that the compliance report should include a statement of the auditor's responsibilities. The AASB agreed with the feedback received that such a statement would add clarity about the auditor's role for these engagements. This has now been added to AuG-49.

Alerting users about the auditor's interpretations of requirements

The Exposure Draft indicated that, when applicable, the compliance report would include a statement indicating that the specified authorities include requirements that are subject to interpretation. The Exposure Draft also permitted auditors, at their discretion, to include a description of the interpretations. Most respondents disagreed with this proposal and suggested that understanding significant interpretations is critical to understanding the compliance report.

The AASB agreed and revised AuG-49 to require a description of all significant interpretations in the compliance report.

Effective date

The Exposure Draft proposed that AuG-49 be effective for reports dated on or after April 1, 2019. Usually, Guidelines become effective when they are issued. However, the Exposure Draft proposed to align the effective date for AuG-49 with the proposed effective date for Canadian Standard on Assurance Engagements (CSAE) 3530, *Attestation Engagements to Report on Compliance*, and CSAE 3531, *Direct Engagements to Report on Compliance*. By doing so, it would allow the AASB to withdraw the whole of Section PS 5300 on the same date (as explained below).

One respondent noted that for entities with a December 31 year-end, the April 1, 2019, effective date of AuG-49 may mean that the auditor's report for the financial statements would be based on the new CAS 700 (which is effective for periods ending on or after December 15, 2018), while the compliance report would be in the old format if the report was dated before April 1, 2019. The respondent noted that this inconsistency would be confusing for users.

The AASB agreed with the respondent and decided that allowing early application of AuG-49 will address this inconsistency by allowing the auditor to conform the compliance report with the report on the financial statement audit if deemed necessary. Accordingly, AuG-49 is effective for reports dated on or after April 1, 2019, with earlier application allowed.

Withdrawal of paragraphs PS 5300.17-.24

The Exposure Draft noted that, with the issuance of AuG-49, CSAE 3530 and CSAE 3531, the AASB will withdraw Section PS 5300. It also proposed that auditors currently reporting instances of non-compliance under paragraphs PS 5300.17-.24 could use Canadian Standard on Related Services (CSRS) 4460, *Reports on Supplementary Matters Arising from an Audit or a Review Engagement*, going forward. One respondent raised concerns about the applicability of CSRS 4460 for these engagements. These concerns included the following:

- Guidance contained in paragraphs PS 5300.17-.24 would be lost when this material is withdrawn. This guidance is particular to engagements conducted by legislative auditors, and there is no similar guidance in CSRS 4460;
- Paragraphs PS 5300.17-.24 allow flexibility in how these engagements are reported. CSRS 4460, on the other hand, includes detailed reporting requirements that do not provide the same degree of flexibility in reporting;
- CSRS 4460 contains requirements that are not applicable to engagements in the public sector conducted by legislative auditors; and
- CSRS 4460 requires the practitioner to be engaged to perform these engagements. Legislative auditors do not need to be engaged but rather perform these engagements due to legislative requirements to report instances of non-compliance that come to their attention while performing other audit responsibilities.

In response to these concerns, the AASB has made consequential amendments to CSRS 4460.

List of Respondents to the Exposure Draft

Respondent	Written Response	Other Feedback¹
Office of the Auditor General of Canada	✓	✓
Provincial Auditor of Saskatchewan	✓	
Office of the Auditor General – Newfoundland and Labrador	✓	✓
Office of the Auditor General of Alberta	✓	✓
The Quebec CPA Order	✓	
Office of the Auditor General of Ontario		✓
Office of the Auditor General of British Columbia		✓
KPMG LLP		✓
BDO Canada LLP		✓
Canadian Deposit Insurance Corporation		✓
Canadian Broadcasting Corporation		✓
Canada Post		✓

¹ AASB staff collected other feedback via video conference or through in-person meetings with respondents.

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