

PROPOSED CANADIAN UMBRELLA ASSURANCE STANDARDS OVERVIEW

NOTE: THIS MATERIAL IS PRELIMINARY IN NATURE. AS AT THE DATE OF PREPARATION OF THIS MATERIAL, THE CANADIAN AUDITING & ASSURANCE STANDARDS BOARD HAD NOT YET APPROVED IT'S EXPOSURE DRAFT OF PROPOSED REVISED CANADIAN UMBRELLA ASSURANCE. THIS APPROVAL IS EXPECTED EARLY IN 2014.

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TOPICS COVERED

- Canadian standard setting environment
- Preliminary Canadian AASB decisions re revised umbrella assurance standards
- Significant differences between ISAE 3000, CSAE 3000 (Attestation Engagements)
- Significant differences between CSAE 3000 & CSAE 3001 (Direct engagements)

Key Features of the Canadian Environment in Which Assurance Standards Are Being Revised

**Who
develops
the
standards?**

- **AASB**
 - 13 voting members (6 from biggest firms, 2 from small firms, 1 academic, 1 bank internal auditor, 3 public sector auditors)
 - Public sector members are high ranking (Assistant Auditors General, 1 recently retired Auditors general)
 - Formerly two separate boards (Public Sector Board used to set auditing standards for the public sector)

Key Features of the Canadian Environment in Which Assurance Standards Are Being Revised

**Who
develops
the
standards?**

Standards for Assurance Engagements Task Force (CSAE 3000/3001) (accountable to the AASB)

- 4 senior public sector assurance professionals (Assistant Auditors General)
- Former Chair of the AASB (who is a retired Assistant Auditor General)
- Senior partners who perform assurance engagements (from 2 of the big 6 firms)

Key Features of the Canadian Environment in Which Assurance Standards Are Set

EXISTING UMBRELLA ASSURANCE STANDARDS
(for other than audits of f/s & other historical financial information) **(TO BE WITHDRAWN)**

Section 5025, Standards for Assurance Engagements (1997)

Section 5030, Quality Control Procedures (2005)

Section 5049, Use of Specialists (2002)

Section 5050, Use of Work of Internal Audit (1994)

Section 8100, General Review Standards (1989)

PLANNED CLARIFIED & REVISED UMBRELLA ASSURANCE STANDARDS

CSAE 3000, Standards for **Attestation Engagements**, Other Than Audits or Reviews of Historical Financial Information
(To be adopted from ISAE 3000 with minimal changes)

CSAE 3001, Direct Engagements Based on CSAE 3000.
Amendments relate solely to differences in the nature of attestation engagements & direct engagements & how they are performed

Key Features of the Canadian Environment in Which Assurance Standards Are Being Revised

Engagement level assurance standards

- **CSAE 3410, Assurance Engagements re Greenhouse Gas Statements (2013).** Adopted from ISAE 3410. Covers attestation engagements.
- **CSAE 3416, Reporting on Controls at Service Org. (2011)**
Based on AICPA standard, reconciled to ISAE. Covers attestation engagements.
- **Section 5815, Audit Reports on Compliance with Agreements, Statutes and Regulations (1992, currently being clarified & revised).** Covers attestation and direct engagements, but distinction not clearly made. Practitioner required to follow CAS 805 (adopted from ISA 805) when there is financial information calculated (i.e. it must be an attestation engagement).

Key Features of the Canadian Environment in Which Assurance Standards Are Being Revised

Engagement level assurance standards

- **Section 5925, An Audit of Internal Control Over Financial Reporting that Is Integrated with an Audit of Financial Statements (2008).** Based on AICPA standard. Covers attestation engagements.
- **Section 8600, Reviews of Compliance with Agreements and Regulations (1989, currently being clarified and revised).** Covers direct & attestation engagements but distinction not clearly made.
- **Public Sector (PS) Series of Standards covering value-for-money (performance) audits & compliance audits (1986-2006)** Covers direct engagements for audits of public sector entities.

Key Features of the Canadian Environment in Which Assurance Standards Are Being Revised

Why are Canadian umbrella assurance standards being revised?

- ❑ **Long history of setting assurance standards**
 - Assurance standards (covering both attestation & direct engagements) vital to helping to maintain/enhance quality of assurance engagements.
 - Existing standards have proven to be robust (e.g., these standards used as basis for peer review of Auditor General of Canada's value-for-money audits by Auditor General of Australia).
 - **However**, most extant assurance standards are quite old & need updating.

Key Features of the Canadian Environment in Which Assurance Standards Are Being Revised

Why are Canadian umbrella assurance standards being revised?

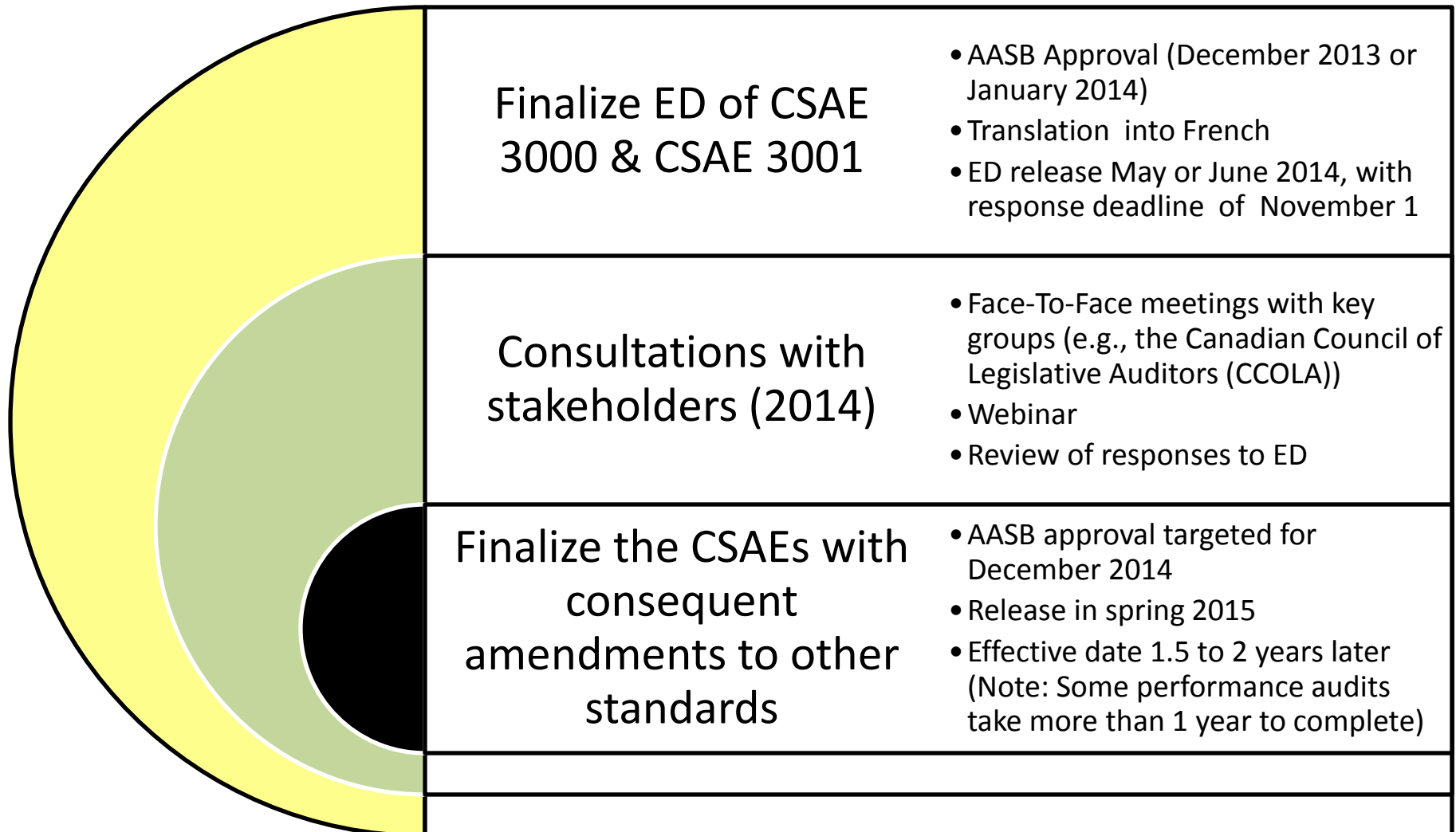
- ❑ **Canadian omnibus initiative** to have all standards in the CPA Canada Assurance Handbook up-to-date & in the clarity format by March 31, 2016.
- ❑ **Desire to keep pace with IAASB projects**
 - Preferred AASB approach is to adopt international standards.
 - Public commitment made to adopt all ISAs as CASs. Relative merits of adopting other standards considered on a case-by-case basis.

Key Features of the Canadian Environment in Which Assurance Standards Are Being Revised

How are Canadian assurance standards set?

- ❑ **Rigorous due process** (essentially the same as that of IAASB).
- ❑ **Key feature of due process:** input obtained from a number of sources, including face-to-face meetings with key stakeholder groups.
- ❑ **Consider both practitioner needs & user needs** (within the overall context of meeting the public interest).

Due Process Going Forward re Revising Umbrella Assurance Standards



Adopt ISAE 3000 as Proposed CSAE 3000

KEY WORDING CHANGES

(Made in accordance with AASB's published criteria for amending wording in an adopted international standard (all changes are tracked in the standard))

Replace references to IESBA Code of Conduct with references to rules of professional conduct/code of ethics adopted by various accounting bodies. *(Reason: IESBA code has not been adopted in Canada.)*

Delete references to International, IFAC Member Body Obligations, & Statements of Member Obligations *(Reason: not applicable to Canadian standards)*

Replace virtually all references to “assurance engagements” with references to “attestation engagements” *(Reason: To make it crystal clear that CSAE 3000 applies only to attestation engagements)*

Change definition of “assurance engagement” *(Reason: In our view, definition in ISAE 3000 “attestation engagement” too focused)*

Differences in definition of “assurance engagement”

ISAE 3000

Definition of “assurance engagement”

An engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion **designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information** (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria)

CSAE 3000 (Attestation Engagements)

Definition of “assurance engagement”

An engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion to intended users other than the responsible party about the outcome of the measurement or evaluation of an underlying subject matter against criteria.

(Definition in ISAE 3000 does not work for Canadian direct engagements (e.g., the reference to subject matter information)).

Reasons for developing separate CSAE 3001, Direct Engagements

Many direct engagements are performed in Canada: continuing need for a basis on which to achieve uniform high quality of performance

Need for a standard based on concepts & terminology that resonate with Canadian practitioners

Direct engagements in Canada do not involve the concept of “misstatement of subject matter information” contained in CSAE 3000:

- Practitioners’ reports contain findings/observations, a conclusion, & some information quoted for illustrative purposes from authoritative sources.
- Engagements involving “subject matter information” (which require a level of knowledge, and reporting systems & controls, that only an entity’s management would possess) should be “attestation engagements.”

Key Differences Between Proposed CSAE 3000 & Proposed CSAE 3001 (Direct Engagements)

Introduction to CSAE 3001 contains a brief overview of features of a direct engagement that differ from an attestation engagement, using a public sector performance (value-for-money) audit as an example:

Underlying subject matter:

- Auditor decides its nature & scope:
 - ✓ pursuant to the mandate of the public sector auditor as set out in law or regulation, and
 - ✓ based on a good knowledge of the entity's activities and the risks it faces from a public perspective.
- Underlying subject matter often will be qualitative, rather than quantitative, and involve various complex systems and processes.

Key Differences Between Proposed CSAE 3000 & Proposed CSAE 3001 (Direct Engagements)

Example in introduction in CSAE 3001 (cont.):

Suitable criteria

- Auditor normally decides on the suitable criteria to be used:
 - Derived from relevant sources (e.g., pertinent laws or regulators, policies, directives, and guidelines)
- Auditor normally seeks agreement from the party responsible for the underlying subject matter that the criteria are suitable.

No public assertion by the responsible party

- Party responsible for the underlying subject matter makes no public assertion regarding whether the entity's performance conformed with applicable criteria.

Report format

- No prescribed report format.
 - ✓ Typically long form, setting out the auditor's findings and conclusion (regarding whether the underlying subject matter conforms, in all material respects, with the applicable criteria) and recommendations related to dealing with issues identified by the auditor.

Key Differences Between Proposed CSAE 3000 & Proposed CSAE 3001 (Direct Engagements)

CSAE 3000 (Attestation Engagements)

Objective (a)

To obtain either reasonable assurance or limited assurance, as appropriate, about whether the **subject matter information is free from material misstatement**

Definition of “Misstatement”:

A difference between the subject matter information and the appropriate measurement or evaluation of the underlying subject matter in accordance with the criteria. Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions.

CSAE 3001 (Direct Engagements)

Objective (a)

To obtain either reasonable assurance or limited assurance, as appropriate, about whether the **underlying subject matter conforms, in all material respects, with the applicable criteria**

No definition of “misstatement”

Definition of “deviation” added:

“An instance where the underlying subject matter does not conform with the applicable criteria. A deviation can be intentional or unintentional, qualitative or quantitative, and include omissions.”

Key Differences Between Proposed CSAE 3000 & Proposed CSAE 3001 (Direct Engagements)

CSAE 3000 (Attestation Engagements)

Many references to “misstatement” “material misstatement” etc. throughout the standard misstatement.

Accumulation of uncorrected misstatements

The practitioner shall accumulate uncorrected misstatements identified during the engagement other than those that are clearly trivial.

CSAE 3001 (Direct Engagements)

All references to “misstatement” “material misstatement” etc. replaced by references to “deviation”, “material deviation” etc.

Consideration of aggregate effect of deviations

The practitioner shall consider whether individual deviations identified during the engagement (other than those that are clearly trivial) have characteristics, for example a root cause or a problematic pattern, that indicate the aggregate effect of individual deviations is likely to be material.

Key Differences Between Proposed CSAE 3000 & Proposed CSAE 3001

CSAE 3000 (Attestation Engagements)

Definition of “measurer or evaluator”

The party(ies) who measures or evaluates the underlying subject matter against the criteria. The measurer or evaluator possesses expertise in the underlying subject matter.

Definition of “Subject matter information” (term used throughout the CSAE)

The outcome of the measurement or evaluation of the underlying subject matter against the criteria, i.e., the information that results from applying the criteria to the underlying subject matter.

CSAE 3001 (Direct Engagements)

No definition of “measurer or evaluator.”

No use of the term in the CSAE.
Application material in CSAE 3000 re this matter also deleted.

No definition of “subject matter information”. No use of the term in the CSAE.

For example, no references to “preparation of subject matter information”. References to “subject matter information” replaced with “underlying subject matter.”

Key Differences Between Proposed CSAE 3000 & Proposed CSAE 3001

CSAE 3000 (Attestation Engagements)

Written representations

The practitioner shall request from the appropriate party(ies) a written representation ... (b) Confirming the measurement or evaluation of the underlying subject matter against the applicable criteria, including that all relevant matters are reflected in the subject matter information.

CSAE 3001 (Direct Engagements)

No written representations re measurement or evaluation of the underlying subject matter since this is performed by the practitioner.

Key Differences Between Proposed CSAE 3000 & Proposed CSAE 3001

CSAE 3000 (Attestation Engagements)

Conclusion in the practitioner's report

The conclusion in ... shall be phrased using appropriate words for the underlying subject matter and applicable criteria given the engagement circumstances and shall be phrased in terms of:

- a. The underlying subject matter and the applicable criteria;
- b. The subject matter information and the applicable criteria;
- c. A statement made by the appropriate party.

CSAE 3001 (Direct Engagements)

Conclusion in the practitioner's report

The conclusion in ... shall be phrased using appropriate words for the underlying subject matter and applicable criteria given the engagement circumstances.

Key Differences Between Proposed CSAE 3000 & Proposed CSAE 3001

CSAE 3000 (Attestation Engagements)

Date of the assurance report

The assurance report shall be dated no earlier than the date on which the practitioner has obtained the evidence on which the practitioner's conclusion is based including evidence that those with the recognized authority have asserted that they have taken responsibility for the subject matter information.

CSAE 3001 (Direct Engagements)

Conclusion in the practitioner's report

The assurance report shall be dated no earlier than the date on which the practitioner has obtained the evidence on which the practitioner's conclusion is based.

Key Differences Between Proposed CSAE 3000 & Proposed CSAE 3001

CSAE 3000 (Attestation Engagements)

Responsible party states that the subject matter information is materially misstated

When the statement made by the appropriate party has identified and properly described that the subject matter information is materially misstated, the practitioner shall either: (a) Express a qualified conclusion or adverse conclusion phrased in terms of the underlying subject matter and the applicable criteria; or (b) If specifically required by the terms of the engagement to phrase the conclusion in terms of a statement made by the appropriate party, express an unqualified conclusion but include an Emphasis of Matter paragraph in the assurance report referring to the statement made by the appropriate party that identifies and properly describes that the subject matter information is materially misstated.

CSAE 3001 (Direct Engagements)

No requirement (not applicable in a direct engagement)