

# Audit & Assurance Alert

## CANADIAN STANDARDS ON ASSURANCE ENGAGEMENTS (CSAE)

FEBRUARY 2020

### FAQ for auditors: What you need to know about attestation engagements and direct engagements

The purpose of this *Audit & Assurance Alert (Alert)* is to answer frequently asked questions related to the application of CSAE 3000, *Attestation Engagements Other than Audits or Reviews of Historical Financial Information*, and CSAE 3001, *Direct Engagements*. These standards relate to assurance engagements on which reasonable or limited assurance is required, other than audits or reviews of historical financial information (which are dealt with in Canadian Auditing Standards [CASs] and Canadian Standard on Review Engagements [CSRE] 2400).

This FAQ document will address areas of interest related to attestation and direct engagements. The questions and answers will cover the following topics:

- **Scope of the engagement**
  - nature of CSAE 3000 and 3001 engagements, how they are different and how the roles, responsibilities and communications help determine whether the engagement is performed under CSAE 3000 or 3001
- **Components of the engagement**
  - defining underlying subject matter and subject matter information, and identifying how they are different
  - requirements for statements from management

- [Preparing the assurance report](#)
  - reporting differences between a reasonable assurance engagement and a limited assurance engagement
  - determining and reporting significant inherent limitations
  - differences in reporting on underlying subject matter and subject matter information for CSAE 3000 and 3001 engagements
- [Appendix A](#)
  - examples of CSAE 3000 engagements
  - examples of CSAE 3001 engagements
- [Appendix B](#)
  - illustrative report: CSAE 3000 paragraph c69(iv)(b) [EXAMPLE ONLY]

This *Alert* does not address all aspects of CSAEs 3000 and 3001. Practitioners should refer to CSAEs 3000 and 3001 for a detailed understanding of the requirements.

## Scope of the Engagement

### What is the nature of CSAEs 3000 and 3001?

Both cover a broad range of assurance engagements on a wide variety of subject matters other than historical financial statements. CSAEs 3000 and 3001 include requirements addressing all aspects of an engagement, from client acceptance and quality control through to reporting and documentation. The standards cover both reasonable and limited assurance engagements. CSAE 3000 applies to attestation engagements, while CSAE 3001 applies to direct engagements.

For examples of CSAEs 3000 and 3001 engagements, please refer to [Appendix A](#).

### What are the differences between attestation engagements and direct engagements?

In an attestation engagement, a party other than the practitioner (usually management) measures or evaluates the [underlying subject matter](#) against the criteria. In a direct engagement, the practitioner evaluates the underlying subject matter against applicable criteria. For example, in an attestation engagement on sustainability, management or management's expert evaluates the entity's sustainability performance (the underlying subject matter) against criteria, and management prepares a statement about the outcome of that evaluation (the subject matter information). The practitioner then reports on management's statement. By contrast, in a direct engagement, management does not evaluate the entity's sustainability performance, and the practitioner evaluates and reports on the entity's sustainability performance directly.

Appendix C2 of CSAE 3000 and Appendix 2 of CSAE 3001 provide high-level comparisons of several key elements of attestation engagements and direct engagements. In addition, a comparison of other elements is provided below for additional guidance.

	Attestation engagements	Direct engagements
Role of the responsible party	The responsible party (often management) is responsible for measuring and evaluating the underlying subject matter against the criteria and, when applicable, providing a public statement or assertion regarding their measurement or evaluation of the underlying subject matter.	The responsible party (often management) is responsible for the underlying subject matter and does not perform measurement or evaluation of the underlying subject matter against the criteria. While the responsible party does not provide a statement or assertion to an external party, the practitioner seeks the responsible party's written acknowledgment of responsibility for the underlying subject matter, generally through the engagement letter and the representation letter.
Practitioner's conclusion	<p>The practitioner's conclusion may be phrased in terms of:</p> <ul style="list-style-type: none"> <li>• the underlying subject matter and the applicable criteria</li> <li>• the subject matter information and the applicable criteria</li> <li>• a statement made by the appropriate party</li> </ul> <p>Many practitioners prefer to phrase their report in terms of the subject matter information and the applicable criteria to more clearly distinguish an attestation engagement from a direct engagement. The illustrative report included in <a href="#">Appendix B</a> reflects that preference.</p>	The practitioner's conclusion is phrased in terms of the underlying subject matter and the applicable criteria.

### How does a practitioner know when CSAE 3000 or 3001 applies?

When the practitioner is requested to provide assurance on non-financial information, the practitioner needs to determine whether to report under CSAE 3000 or 3001. All assurance engagements include the following parties: the practitioner, the responsible party and the intended users. To determine whether CSAE 3000 or 3001 applies, the practitioner may consider the role of each party in the engagement. The responsible party is typically expected to be responsible for the underlying subject matter but may not necessarily be the measurer/evaluator of the underlying subject matter against the criteria. To distinguish between a CSAE 3000 and 3001 engagement, the practitioner may consider which party

fulfills the role of the measurer/evaluator of the underlying subject matter against the criteria. If the practitioner is responsible for measuring or evaluating the underlying subject matter, then the assurance engagement is likely a direct engagement. In instances where the practitioner is not responsible for measuring or evaluating the underlying subject matter but instead performs procedures to assess whether the subject matter information (often presented in a statement or report) is fairly presented, then the assurance engagement is likely an attestation engagement.

#### **What if it is unclear who has responsibility for measuring and evaluating the underlying subject matter?**

It may be unclear which party is responsible for measuring or evaluating the underlying subject matter (e.g., when the responsible party does not provide a written statement asserting that they have performed the measurement or evaluation of the underlying subject matter). In those cases, the practitioner may need to consider the following questions when determining whether the assurance engagement falls within the scope of CSAE 3000 or 3001.

#### ***Which party is responsible for determining the criteria against which to evaluate the underlying subject matter?***

If a practitioner determines the applicable criteria, the assurance engagement is more likely a direct engagement. If a party other than the practitioner (e.g., a third party or management) determines the applicable criteria, the assurance engagement is less likely to be a direct engagement and more likely to be an attestation engagement.

#### ***Do the responsible party's policies and processes suggest they are performing the measurement or evaluation of the underlying subject matter?***

The documentation of the responsible party's policies and processes does not need to be formal for the practitioner to determine that the responsible party is the measurer/evaluator. If the responsible party and not the practitioner is the measurer/evaluator, then the assurance engagement is more likely an attestation engagement.

#### **Do CSAEs 3000 and 3001 apply to compliance engagements?**

CSAE 3530, *Attestation Engagements to Report on Compliance*, and CSAE 3531, *Direct Engagements to Report on Compliance*, supplement and address special considerations in the application of CSAEs 3000 and 3001 to engagements to report on compliance. Therefore, all engagements to report on compliance are conducted under either CSAE 3530 or 3531 and refer to CSAEs 3000 and 3001 as appropriate for topics not addressed in CSAEs 3530 or 3531.

For more information on CSAEs 3530 and 3531, please refer to the following CPA Canada guidance:

- [Audit & Assurance Alert: “Special Reports – Compliance with Agreements” \(Section 5815/8600\): Now Called Compliance Reporting](#)
- [Implementation Tool for Practitioners: Do You Provide Assurance on a Client’s Compliance with an Agreement, Specified Authority or a Provision Thereof?](#)
- [Briefing for Management and Third Parties: Reports on Compliance are Changing](#)

## Planning and Performing the Engagement

### What is the difference between subject matter information and underlying subject matter?

Subject matter information is 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).

For example, in an engagement to provide reasonable assurance over the number of students enrolled in a particular post-secondary program, the number of students is the underlying subject matter. The schedule prepared by client management, which presents the number of students in a specific category after measurement/evaluation against the criteria, is the subject matter information.

### In an attestation engagement, is management required to have a formal measurement or evaluation process?

In an attestation engagement, it is not necessary for management to have a formal measurement or evaluation process; however, there must be management assertion(s) on underlying subject matter against which the practitioner can evaluate and provide assurance.

In an attestation engagement, a party other than the practitioner measures or evaluates the underlying subject matter against the criteria. Typically, this is management or individuals to whom management delegates responsibility. Some practitioners may question whether, as part of the CSAE 3000 engagement, there is a requirement that management perform its evaluations in a structured manner, with evidence available to the practitioner.

Paragraph 47R in CSAE 3000 requires the practitioner to obtain an understanding of internal control over the preparation of the subject matter information relevant to the engagement. This understanding would typically include management’s measurement or evaluation process. However, CSAE 3000 does not require management to have a formal measurement or evaluation process.

The degree of formality of management's process can vary and may depend, for example, on the complexity of the underlying subject matter. Management's process can be ad hoc (i.e., a separate measurement or evaluation) or integrated into the entity's day-to-day operations.

An example is a school required to report the number of students registered in different programs to a provincial body. Typically, management prepares a schedule which compiles data for students according to defined classifications. Management can decide not to conduct an ad hoc evaluation to assess whether this student enrollment data meets the criteria. Management can, instead, consider that its knowledge of the day-to-day processes and controls is sufficient to prepare the schedule. Put another way, management may determine that no incremental work is needed to prepare a schedule in accordance with the criteria or to make its assertion.

For more complex non-financial information that is measured against complex criteria, management can decide to use an ad hoc process, which may include self-assessment and/or independent testing. CSAE 3000 does not impose requirements on management as to what is needed to support management's statement. In some cases, the entity's policies and procedures may specify the necessary approval process for those with the recognized authority to assert that they take responsibility for the subject matter information. In other cases, the process followed by the entity in preparing and finalizing the subject matter information in view of its management and governance structures may be considered.

### In an attestation engagement, does management's statement need to be explicit or can it be implied?

CSAE 3000 does not require management to prepare a written statement for intended users explicitly stating the underlying subject matter was measured or evaluated against the applicable criteria.

There may be situations in which management's measurement or evaluation of the underlying subject matter against criteria is implied through the way the subject matter information is presented or reported to the intended users.

Continuing with the example in the previous question, the intended user (the provincial body) may have developed a guideline (the criteria) specifying the characteristics of student enrollment data to be provided on a prescribed schedule. It may be appropriate to view the prescribed schedule prepared by management as an implied statement that the student enrollment data is in accordance with the guideline.

In other situations, it will be appropriate for the subject matter information to include, or be accompanied by, a written statement provided to the intended users that explicitly states that the underlying subject matter was measured or evaluated against the applicable criteria. This is more likely to be the case when the underlying subject matter is more complex, when the presentation of the subject matter information is not prescribed, or when the

criteria would not otherwise be available to the intended users. CSAE 3530 is based on management preparing an *explicit written statement* of the entity's compliance with specified requirements for an external party and does not allow for compliance to be implied.

## Preparing the Assurance Report

### Does the auditor include an informative summary of work performed in the practitioner's report in a reasonable assurance engagement or only in a limited assurance engagement?

The informative summary of work performed helps intended users understand the level of assurance provided by the practitioner's report. The summary may consist of a generic description explaining what a reasonable assurance or a limited assurance engagement typically entails rather than a detailed list of procedures performed.

In a reasonable assurance engagement, the practitioner's report typically only briefly describes procedures performed, since the term "reasonable assurance" is a fairly consistent threshold. For this reason, describing the specific procedures performed in any level of detail would not help users understand that, in all cases where an unmodified report is issued, sufficient appropriate evidence has been obtained to enable the practitioner to express an opinion. However, depending on the circumstances of the particular engagement, the practitioner may choose to include a more detailed description of procedures performed.

On the other hand, a limited assurance engagement can be viewed as including a wider range of assurance, depending on the underlying subject matter. Therefore, an appreciation of the nature, timing and extent of procedures performed may be necessary for the intended users to understand the conclusion expressed. The information included in the report conveys whether, based on the procedures performed, a matter has come to the practitioner's attention to cause the practitioner to believe that management's statement is not fairly stated in all material respects. For example, the practitioner's report may include explanations of the:

- types of procedures typically performed in a limited assurance engagement
- practitioner's use of professional judgment to determine the procedures performed

As a result, the description of the practitioner's procedures in a limited assurance engagement may be more detailed than in a reasonable assurance engagement.

When the practitioner decides to provide additional details regarding the procedures performed, factors the practitioner may consider in determining the level of detail to be provided include, for example:

- specific engagement circumstances affecting the nature and extent of the procedures performed

- intended users' expectations of the level of detail to be provided in the report, based on common practice

In describing the procedures performed, it is important the summary is not ambiguous or does not imply that more assurance has been obtained than is the case. It is also important that the description of the procedures does not give the impression that a specified auditing procedures engagement has been undertaken. In most cases, the informative summary will not detail the work plan in its entirety.

### When is it appropriate to include a description of significant inherent limitations associated with the measurement or evaluation of the underlying subject matter against the applicable criteria in the assurance report?

Paragraph C69(e) in CSAE 3000 and paragraph 73(f) in CSAE 3001 require the assurance report to include, where appropriate, a description of any significant inherent limitations associated with the measurement or evaluation of the underlying subject matter against the applicable criteria.

Inherent limitations may relate to the subject matter itself or to the criteria used in the measurement or evaluation. For example, in an engagement where the subject matter is restricted to the entity's controls over a specific process, an inherent limitation may be that the conclusion about the specific process should not be extended to the entity's entire internal control system. Another example of an inherent limitation may be established criteria<sup>1</sup> that have been enhanced but are not yet effective and would have resulted in a different evaluation or measurement.

Determining whether an inherent limitation is significant and whether it is appropriate to communicate it in the assurance report is a matter of the practitioner's professional judgment. The practitioner may find the following considerations useful when applying professional judgment:

- **Is the inherent limitation significant?**

There is no definition of "significant inherent limitations" in CSAE 3000 or 3001. However, it may be appropriate to consider that an inherent limitation is significant if it materially affects the outcome of the measurement or evaluation.

- **Is it appropriate to communicate the significant inherent limitation?**

In some cases, significant inherent limitations can be expected to be well understood by the intended users of the assurance report. Using the example of established criteria above, it may be expected that the intended users understand, through the transparent due process followed by the authorized or recognized body, that the established criteria have been revised but are not yet effective. Factors that may influence whether it may be expected that the intended users understand the significant inherent limitations include:

<sup>1</sup> Paragraph A49 in CSAE 3000 indicates that criteria issued by authorized or recognized bodies of experts that follow a transparent due process are known as established "criteria."



- **intended users’ understanding of the subject matter information or applicable criteria**  
**Example:** An intended party having specifically requested that the subject matter be only the entity’s controls over a specific process may be expected to understand that the conclusion should not be extended to the entity’s entire internal control system.
- **information otherwise provided in the assurance report**  
**Example:** The report may include a statement that the applicable criteria are designed for a specific purpose or the informative summary of the work performed may already provide the necessary information to support the users’ understanding such that including those matters as inherent limitations is unnecessary.
- **intended users’ expectations of the level of detail to be provided in the report, based on market practice**  
**Example:** It may be common practice in an assurance report related to the effectiveness of internal control to note that the historic evaluation of effectiveness is not relevant to future periods.

The inherent limitations are different from limitation on scope of the practitioner’s work. Limitations on scope are addressed in paragraphs 26, 66, 74 and 76 in CSAE 3000 and in paragraphs 28, 70, 78 and 80 in CSAE 3001.

The inherent limitations are also different from limitations related to the level of assurance obtained (i.e., reasonable assurance vs. limited assurance) and to the nature, timing and extent of procedures performed. Therefore, in a limited assurance engagement, both CSAE 3000 and 3001 require the assurance report to include information essential to understanding the practitioner’s conclusion, including that the level of assurance obtained from the limited assurance engagement is substantially lower than the assurance that would have been obtained from a reasonable assurance engagement.

[What are examples of scenarios for the practitioner’s opinion under each reporting option in CSAE 3000 C69\(I\)\(iv\) and what are the related reporting implications when opining on subject matter information versus underlying subject matter?](#)

In a CSAE 3000 engagement, the practitioner’s conclusion may be phrased in terms of:

1. the underlying subject matter and the applicable criteria
2. the subject matter information and the applicable criteria
3. a statement made by the appropriate party

Examples of the three reporting scenarios, using a CSAE 3000 engagement on student enrollment, are as follows:

1. Management is evaluating and measuring the *underlying subject matter* (e.g., number of students) against applicable criteria and has made a statement or assertion regarding the outcome of their measurement or evaluation but does not present the outcome in a prescribed form. The practitioner is concluding on the *underlying subject matter* based on assertion(s) provided by management (number of students) *against the applicable criteria*.
2. Management is preparing the *subject matter information* (e.g., schedule of student enrollment) in accordance with the applicable criteria. The practitioner is concluding on the *subject matter information* (schedule of student enrollment) *against the applicable criteria*. For an example of this reporting scenario, refer to [Appendix B](#) for a sample illustrative report. *In the example of student enrollment, this is differentiated from option 1 above in that the practitioner opines on the schedule of student enrollment rather than the number of students.*
3. Management is evaluating and measuring the *underlying subject matter* (i.e., number of students) against applicable criteria and has made a statement or assertion regarding the outcome of their measurement or evaluation. The practitioner is concluding on the *statement or assertion*.

As explained in CSAE 3000, the wording for the conclusion depends on the engagement circumstance. Many practitioners prefer to phrase their report in terms of the subject matter information and the applicable criteria (see option 2 above) because this provides a clearer distinction from a direct engagement. The illustrative report included in [Appendix B](#) reflects an example of this reporting option. In a CSAE 3001 engagement, the practitioner measures or evaluates the underlying subject matter against the applicable criteria. An example of reporting under CSAE 3001 would be as follows:

1. The *practitioner* is evaluating and measuring the *underlying subject matter* (e.g., number of students) against applicable criteria, and the practitioner is concluding on the *underlying subject matter* (i.e., number of students) *against the applicable criteria*.

## Appendix A

### What are examples of CSAE 3000 engagements?

The following are examples in practice of reasonable assurance engagements on:

- management's statement of selected performance indicators
- selected sustainability information included in a social responsibility report
- the statement of student full-time equivalent (FTE) enrollment statement (for the Ministry of Advanced Education)
- management's statement of the total quantities of non-refillable beer containers
- an entity's cybersecurity risk management program and controls (SOC for Cybersecurity)
- an examination of controls at a service organization relevant to security, availability, processing integrity, confidentiality, or privacy (SOC 2)
- management's assertion that the entity has appropriate disclosures and controls in accordance with the WebTrust Principles and Criteria for Certification Authorities
- management's statement of days of attendance for children in a childcare facility
- management's statement of units of performance measures in a healthcare facility
- the statement indicating the meters of water and sewage pipes rehabilitated as part of an infrastructure program

### What are examples of CSAE 3001 engagements?

The following are examples in practice of reasonable assurance engagements on:

- sustainability
- the entity's disclosures and controls in accordance with the WebTrust Principles and Criteria for Certification Authorities
- the performance of the duties and functions of Election Officials in accordance with the responsibilities within the *Election Act* (performance audits)
- the preparation of annual reports in accordance with Public Performance Reporting Principles

## Appendix B

### Sample illustrative report: CSAE 3000 paragraph C69(l)(iv)(b)

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

- The practitioner reports on a reasonable assurance engagement in accordance with the reporting scenario in CSAE 3000, paragraph c69(l)(iv)(b): *When management is responsible for the preparation of the subject matter information and our conclusion is expressed in terms of the subject matter information and the applicable criteria.*
- Management prepares the subject matter information and provides it to the practitioner.
- The practitioner attaches the subject matter information to the practitioner's report.
- Management is the responsible party and measurer and/or evaluator.
- The practitioner makes no significant interpretations of the applicable criteria.
- The practitioner issues an unqualified opinion.
- The practitioner decides to use headings in the report.
- The practitioner tailors grey highlighted text to the facts and circumstances of the engagement.

### Independent practitioner's reasonable assurance report

To [Addressee]

We have undertaken a reasonable assurance engagement of the accompanying subject matter information (e.g., statement of student enrollment) of Entity Name (the "Entity") as at DATE/for the period ended DATE/for the period from DATE to DATE (collectively referred to as "subject matter information").

#### Management's Responsibility

Management is responsible for the preparation of the subject matter information in accordance with applicable criteria (the "applicable criteria"). ***[When the applicable criteria are designed for a specific purpose and management has the option of selecting the applicable criteria, the practitioner may consider inserting a statement alerting readers to this fact:*** Management is also responsible for selecting the applicable criteria used.] Management is also responsible for such internal control as management determines necessary to enable the preparation of the subject matter information that is free from material misstatement, whether due to fraud or error.

## **Our Responsibility**

Our responsibility is to express a reasonable assurance opinion on the **subject matter information** based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with Canadian Standard on Assurance Engagements (CSAE) 3000, *Attestation Engagements Other than Audits or Reviews of Historical Financial Information*. This standard requires that we plan and perform this engagement to obtain reasonable assurance about whether the **subject matter information** is free from material misstatement.

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 misstatement when it exists. Misstatements 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, whether due to fraud or error, and involves obtaining evidence about the preparation of **subject matter information** in accordance with the applicable criteria.

***The practitioner may insert a more detailed description of the nature, timing and extent of procedures performed that, in the practitioner's judgment, is important to the users' understanding of the basis for the practitioner's opinion:*** Our engagement included, among others, the following procedures performed: [List].

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

## **Our Independence and Quality Control**

We have complied with the relevant rules of professional conduct/code of ethics applicable to the practice of public accounting and related to assurance engagements, issued by various professional accounting bodies, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Canadian Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*, and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### **Significant Inherent Limitations**

*Where appropriate, the practitioner may include a description of any significant inherent limitations associated with the measurement or evaluation of the underlying subject matter against the applicable criteria.*

### **Opinion**

In our opinion, the subject matter information of the Entity as at DATE/for the period ended DATE/for the period from DATE to DATE is prepared, in all material respects, in accordance with the applicable criteria.

### **Specific Purpose of Applicable Criteria and Restriction on Distribution and/or Use**

*When the applicable criteria are designed for a specific purpose, the practitioner inserts a statement alerting readers to this fact.*

The subject matter information has been prepared in accordance with the applicable criteria to report to intended user(s). As a result, the subject matter information may not be suitable for another purpose.

*The practitioner may insert a restriction on distribution and/or use section where such restriction is done on a voluntary basis or prescribed by laws, regulation or standards.*

Our report is intended solely for the Entity and applicable other party and should not be distributed to or used by other parties.

Practitioner's signature

City, Province

Date

## Other Resources

- CPA Canada resources on CSAEs 3530 and 3531:
  - [Audit & Assurance Alert: “Special Reports - Compliance with Agreements” \(Section 5815/8600\): Now Called Compliance Reporting](#)
  - [Implementation Tool for Practitioners: Do You Provide Assurance on a Client’s Compliance with an Agreement, Specified Authority or a Provision Thereof?](#)
  - [Briefing for Management and Third Parties: Reports on Compliance are Changing](#)

## Comments

Comments on this *Audit & Assurance Alert* or suggestions for future *Alerts* should be sent to:

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