

Audit & Assurance Alert

CSRS

OCTOBER 2018

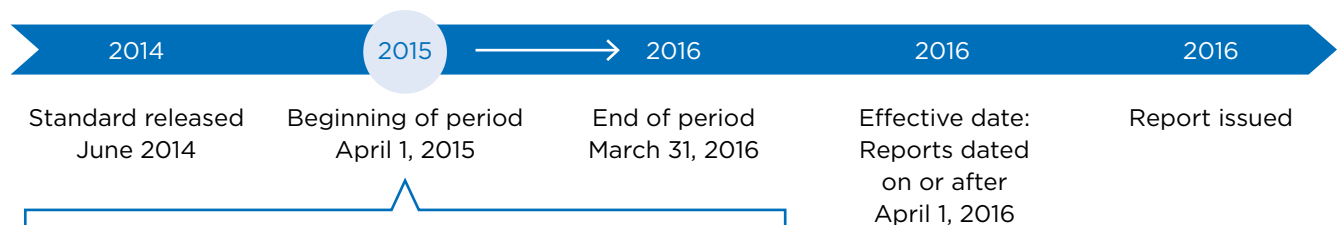
CSRS 4460—A New Standard for Reports on Supplementary Matters: Are You Ready?

This Audit & Assurance Alert is being issued to raise awareness about Canadian Standard for Related Services (CSRS) 4460, *Reporting on Supplementary Matters Arising from an Audit or a Review Engagement*, which was issued in June 2014. This new standard deals with engagements where a practitioner is asked to report on supplementary matters to a third party such as a regulator or funder. This Alert will provide practical considerations for practitioners to help them determine if they have engagements that will fall under this new standard and how they can prepare for them.

When will this new standard be effective?

CSRS 4460 is effective for reports dated on or after April 1, 2016, though early adoption is possible.

The following timeline indicates the importance of planning for an entity that has its year end on March 31, 2016.



The acceptance decision, the planning for any engagements that are accepted, and the issuance of revised engagement letters will begin in early 2015; therefore, you should start thinking about the new standard and related planning now.

Note that the effective date is for reports dated on or after April 1, 2016, and not the entity's year end. For example, the following requests for reports on supplemental matters will fall under this new standard:

- Clients with a December 31, 2015 year end for which the practitioner will date their report on or after April 1, 2016.
- Clients with a March 31, 2016 year end for which the practitioner will date their report on or after April 1, 2016.

Also, early adoption is permitted. Therefore, if the standard provides an appropriate solution to a request for supplementary information the timeline and planning considerations can be even earlier.

What type of engagements may be affected?

Practitioners who are engaged to complete an audit or review for an entity and there is a request to:

- complete or report on supplementary matters
- complete or report on questionnaires
- report instances of non-compliance with laws, regulations or agreements
- report facts or figures other than matters on which they are performing an audit or a review engagement
- report observations made or items of interest to the third party
- provide recommendations

Possible examples:

- A client is a not-for-profit organization and the funding agency requires the completion of a form that the practitioner must complete regarding the program costs.
- A client is a collection agency and the governing legislation requires a report on the state of affairs of the collection business and trust funds.
- A client is a private post-secondary institution or career college and the related provincial ministry requires a report on the enrollment and cost of the program.
- A client has an agreement with the Canada Mortgage and Housing Corporation (CMHC) and requires communication of certain information from the practitioner.
- A client report is related to First Nations activities.

Background

In the past few years, there has been an increasing trend by various third parties, including regulators, to place responsibility on the practitioner to report on matters beyond the scope of the audit or review of the financial statements or other information. The requests often use terminology that does not clearly match with the standards, such as “certify,” “agree,” “provide comfort,” “affirm,” etc. In some instances, the terminology is used without clear guidance on what is expected such as “provide assurance,” “audit of,” etc.

The range of entities which have experienced these types of requests is wide and could include the following:

- private businesses
- school boards
- municipalities
- not-for-profit organizations
- financial institutions

Under Canadian standards, guidance for issuing reports (previously referred to as “derivative” reports) was provided only in the limited circumstance set out in AuG-13, *Special Reports on Regulated Financial Institutions*, and AuG-17, *Transactions or Conditions Reportable Under the “Well-Being Reporting Requirement” in Federal Financial Institutions Legislation*. AuG-17 addresses the reporting requirements of federal financial institutions legislation. AuG-13 addressed the reporting requirements of both federal and provincial financial institutions legislation. The scope of these guidelines was limited so the reporting requirements for entities other than regulated financial institutions were not met.

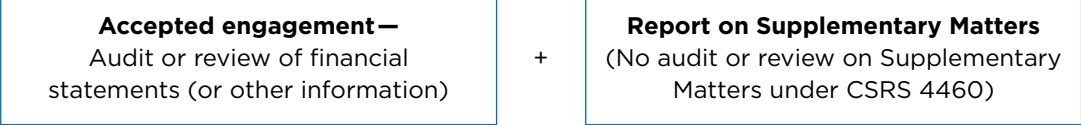
Derivative reporting is based on the premise that no procedures in addition to those carried out in the normal course of the assurance engagement would be performed. The terminology “supplementary matters arising from an audit or review engagement” is used in the new standard since the term “derivative report” was often misunderstood. CSRS 4460 requires the practitioner to perform some additional procedures, where necessary, to support the practitioner’s report, although these procedures are less than what would be required for an audit or review.

It is in the public interest that practitioners accept and perform engagements in a consistent manner. Further, any communication issued by a practitioner must meet both the needs of the third party and the professional standards. The communication must be drafted in a way that clearly communicates the extent of the practitioner’s association with the supplementary matter. CSRS 4460 meets these objectives.

CSRS 4460 addresses circumstances when a practitioner has been requested to accept another reporting responsibility having **all** of the following attributes:

- You are already engaged or requested to perform an audit or a review engagement.
- You have received a request from a third party, or are required by law, regulation or agreement, to provide a written report on a supplementary matter arising from the audit or review engagement.
- You have **not** been engaged to perform an audit or a review engagement on the supplementary matter.
- Your responsibility to provide the written report is not covered by other standards in the *CPA Canada Handbook – Assurance*.

It is important to recognize that CSRS 4460 engagements can only be completed in those instances where an audit or review engagement on the financial statements or other information has been accepted, however, no assurance is actually provided by the report issued under CSRS 4460.



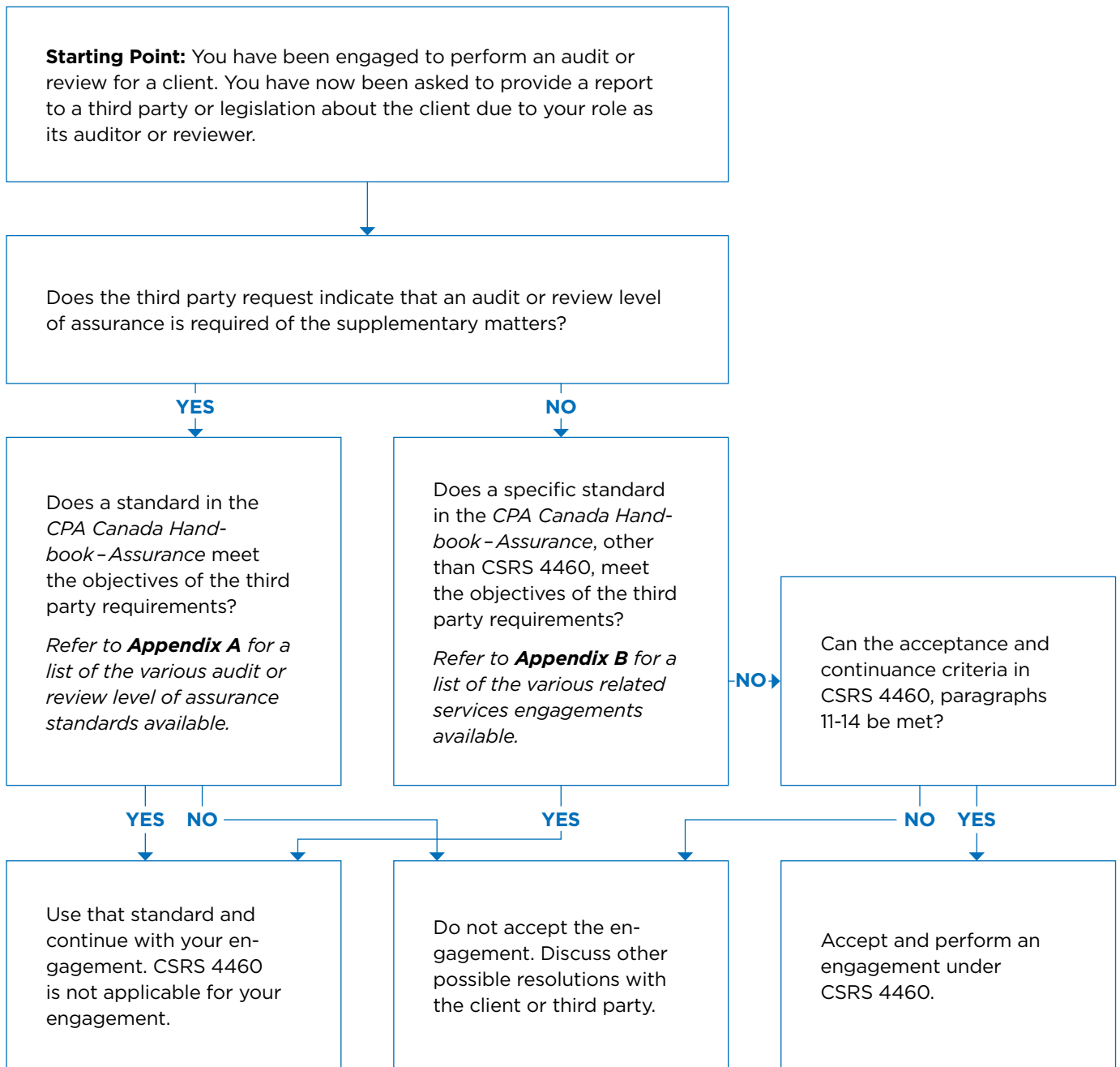
How do you determine which engagements will fall under this new standard, and which will not?

The application of this standard starts with the identification of the types of engagements that are within the scope of this new standard and which are not.

The needs of the third party or legislation requesting the supplemental matters and the determination of whether it falls under CSRS 4460 may require some discussion with the third party. The nature of the request and whether assurance is required will have to be assessed. It is important to remember that CSRS 4460 engagements will not result in providing audit or review level of assurance on the supplementary matter. Therefore, if the request is for matters that are financial in nature, and sufficient procedures are performed, and an audit or review level of assurance is required, then the appropriate engagement may be another standard. Examples include:

- CAS 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*
- Section 5815, *Special Reports—Audit Reports on Compliance with Agreements, Statutes and Regulations* (effective for reports dated before April 1, 2019. Canadian Standard on Assurance Engagements (CSAE) 3530, *Attestation Engagements to Report on Compliance* and CSAE 3531, *Direct Engagements to Report on Compliance* are effective for reports dated on or after April 1, 2019)
- Canadian Standard on Review Engagements (CSRE) 2400, *Engagements to Review Historical Financial Statements*, adapted as necessary to reviews of historical financial information other than financial statements

The following decision tree will assist in the assessment of which engagements are covered either by CSRS 4460, other standards, or should not be accepted at all:



Appendix A Audit or Review Level of Assurance Standards Available

Audit Level of Assurance	Review Level of Assurance
<ul style="list-style-type: none"> CAS 805, <i>Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i> 	<ul style="list-style-type: none"> CSRE 2400, <i>Engagements to Review Historical Financial Statements</i>, adapted as necessary to reviews of historical financial information other than financial statements
<ul style="list-style-type: none"> Section 5815, <i>Special Reports—Audit Reports on Compliance with Agreements, Statutes and Regulations</i> (effective for reports dated before April 1, 2019) 	<ul style="list-style-type: none"> Section 8600, <i>Reviews of Compliance with Agreements and Regulations</i> (effective for reports dated before April 1, 2019)
<p>Replacing Section 5815 and Section 8600: CSAE 3530, <i>Attestation Engagements to Report on Compliance</i> and CSAE 3531, <i>Direct Engagements to Report on Compliance</i> effective for reports dated on or after April 1, 2019</p>	
<ul style="list-style-type: none"> Section 5925, <i>An Audit Of Internal Control Over Financial Reporting that Is Integrated with an Audit of Financial Statements</i> 	
<p>CSAE 3000, <i>Attestation Engagements Other than Audits or Reviews of Historical Financial Information</i> and CSAE 3001, <i>Direct Engagements</i></p>	

Appendix B Related Services Engagements Available

- Section 9100, *Reports on the Results of Applying Specified Auditing Procedures to Financial Information Other than Financial Statements*. (Note that the examples of reports relating to the amount of gross sales in paragraphs 9100.15-17 were deleted at the same time as the issuance of CSRS 4460. If these reports have been issued in the past, it is time to revisit the nature of the request.)
- Section 9110, *Agreed-Upon Procedures Regarding Internal Control Over Financial Reporting*
- Section 9200, *Compilation Engagements*

Specific to Financial Institutions

- AuG-17, *Transactions or Conditions Reportable under the “Well-Being Reporting Requirement” in Federal Financial Institutions Legislation*. This guideline has been amended to reflect the issuance of, and to adopt the terminology in CSRS 4460.
- AuG-18, *Criteria for Reports Issued Under Subsection 295(5) of “An Act Respecting Trust Companies and Savings Companies” in Québec*. This guideline has been amended to reflect the withdrawal of AuG-13, and the issuance of CSRS 4460.

(**Note:** AuG-13, *Special Reports on Regulated Financial Institutions*, has been withdrawn as a result of the issuance of CSRS 4460.)

What can you do to be ready for this new standard?

- Identify any engagements currently using AuG13 (some may need to be performed using CSRS 4460, while others may need to be revisited).
- Read CSRS 4460, *Reporting on Supplementary Matters Arising from an Audit or a Review Engagement*, and other standards as needed.
- Identify which of your engagements will fall under this new standard along with the timing. Consider circulating a survey within your office to determine the type of reports or forms that are being requested from third parties and how they are being addressed.
- Discuss this new standard with your clients, and possibly the third party who made the request. Modifications to laws, regulations, agreements, checklists/questionnaires may be possible or even necessary in order to continue to respond to the request.
- Develop any specific procedures to comply with new requirements, including the development of new reports, templates or sample reports, to report on the engagements identified.
- Develop the necessary work programs/checklists to incorporate any new procedures that may need to be designed/performed.
- Raise awareness by training staff (and partners) on this new standard and consider open discussions across offices to ensure consistent application.
- Consider the implications on engagements planning, such as timing, resources, etc.
- Prepare amendments, if any, to engagement letters, or consider if a new engagement letter is required if it's not prepared annually.
- Consider the development of a plan of action to help the client if the nature of engagement cannot be clarified with the client or third party if it does not appear to fit into CSRS 4460 or any other standard.

What additional resources are available to help me?

1. CSRS 4460, *Reporting on Supplementary Matters Arising from an Audit or a Review Engagement* www.knotia.ca
2. [Background Information and Basis for Conclusions](#) for CSRS 4460
3. CPA Canada, [Practitioner Client Briefing—CSRS 4460, Reports on Supplementary Matters Arising from an Audit or a Review Engagement](#)
4. CPA Canada, [Implementation Tool for Practitioners: Canadian Standard for Related Services \(CSRS\) 4460](#)

Date of publication

This publication was originally published on October 2014. It was updated in October 2018 for references to new and revised standards. No content related to the application of CSRS 4460 has been revised.

Reports on Supplementary Matters Arising from an Audit or Review Engagement Guidance Task Force

CPA Canada expresses its appreciation to the author for developing this *Audit & Assurance Alert* and to the members of the Reports on Supplementary Matters Arising from an Audit or Review Engagement Guidance Task Force for their contribution to its preparation.

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