

## BASIS FOR CONCLUSIONS CANADIAN STANDARD ON RELATED SERVICES (CSRS) 4460, Reports on Supplementary Matters Arising from an Audit or a Review Engagement

June 2014

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, Canadian Standard on Related Services (CSRS) 4460, *Reports on Supplementary Matters Arising from an Audit or a Review Engagement*.

### Purpose of this Basis for Conclusions

This Basis for Conclusions provides a brief summary of the AASB's objectives in developing CSRS 4460, the public exposure and approval steps for this project and how the AASB dealt with significant matters arising from comments received in response to its Exposure Draft of the CSRS. This information is set out below.

### Background

The development of CSRS 4460 was undertaken by the AASB to address 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 an entity's financial statements. Such matters are relevant to the third party, and may have come to the attention of the practitioner when performing the audit or review. These matters are referred to as "supplementary matters".

In August 2013, the AASB issued an Exposure Draft of CSRS 4460 (ED-4460). Six written responses to ED-4460 were received. In addition to the written responses, a webinar (in English and French) and several consultation sessions with various stakeholders were held to seek input on ED-4460.

The AASB approved CSRS 4460 at its meeting in March 2014. The Auditing and Assurance Standards Oversight Council confirmed that the AASB followed due process in developing CSRS 4460 and related consequential amendments prior to their issuance in the CPA Canada Handbook – Assurance.

### AASB's Objectives in Developing CSRS 4460

The AASB's objectives in developing CSRS 4460 included the following:

- (a) to improve consistency in the manner in which practitioners respond to a third party request for a report on supplementary matters; and
- (b) to ensure that any communication issued by the practitioner has an appropriate basis and is drafted in a way that clearly communicates the extent of the practitioner's association with the supplementary matter.

### Significant Matters Arising from Comments in Response to ED-4460

#### Terminology – Public Accountant vs. Practitioner

1. ED-4460 used the term "public accountant" to refer to the individual who would be performing the engagement. This term was used to be consistent with the term used in other Related Services Sections in the Handbook.
2. A concern was expressed that the use of the term "public accountant" would conflict with the Chartered Professional Accountants Act in Quebec, which specifically prohibits anyone from using the title "public accountant".
3. The term "practitioner" is defined in the Glossary of Terms, while the term "public accountant" is not. Further, recently issued standards have used the term "practitioner" rather than "public accountant".
4. The AASB decided to use the term "practitioner" throughout the CSRS to avoid conflict with the Chartered Professional Accountants Act in Quebec and to reflect recent terminology.

#### Effective Date

5. ED-4460 proposed that the standard be effective for practitioner's reports dated on or after April 1, 2015.
6. A participant at a consultation session expressed concern with this effective date. This participant noted that practitioners may have accepted an audit or review engagement and the related other reporting responsibility for a March 2015 year end before CSRS 4460 has been issued. As it is important that the engagement letter refer to the other reporting responsibility when this is relevant to the engagement, this participant suggested deferring the effective date by one more year.
7. A respondent to ED-4460 suggested that the effective date be associated with the related audit or review engagement (that is, for audits of financial statements for periods ending on or after March 31, 2015).
8. In the AASB's view, regardless of when a standard is effective, there will be some inconsistencies in reports issued. Some practitioners will early adopt and may issue reports with the new wording before the effective date, while others, for the

same type of report, will only use the new wording after the effective date. This cannot be avoided, unless the decision is made to not allow early adoption.

9. The AASB decided to defer the effective date of the standard to allow the practitioner to consider the other reporting responsibility when accepting the related audit or review engagement. CSRS 4460 is effective for reports dated on or after April 1, 2016. Early adoption is permitted.

*Scope of the Standard*

10. One respondent to ED-4460 felt that it should be made clearer that an engagement under this CSRS is not an assurance engagement. For example, it should be clear why paragraphs 20 and 21 do not require that suitable criteria be identified to perform the engagement. The AASB agreed and paragraph A2 was added.

*Engagement Acceptance and Continuance*

11. Paragraph 13(b) of ED-4460 proposed to prohibit the practitioner from accepting an other reporting responsibility engagement when the other reporting responsibility includes terminology that suggests that all transactions or conditions have been reported by the practitioner.
12. One respondent to ED-4460 suggested that there could be situations where it would be possible to issue a report even when such terminology is used and, therefore, the prohibition may not be appropriate. In some cases, it may be practicable to respond to the other reporting responsibility if, for example, there are very few items on which to report and the practitioner is able to confirm the completeness of the items.
13. In developing the standard, the AASB did not want to inadvertently limit the number of third party requests to which the practitioner could respond. The AASB felt that such a limitation would not be in the public interest. The AASB considered whether retaining the prohibition would be in the public interest and decided that it was not.
14. The AASB decided to remove the prohibition from paragraph 13. Paragraph A16 was added to clarify situations where the practitioner may or may not be able to accept the other reporting responsibility.
15. Paragraph 12 of ED-4460 proposed to require the practitioner to accept the other reporting responsibility only when the related audit or review engagement has also been accepted.
16. Some respondents to ED-4460 felt that the practitioner should be able to accept the other reporting responsibility even if a related audit or review engagement has not been accepted. These respondents recognized that the approach to the engagement would be different if the practitioner is not also performing a related audit or review engagement. For example, the practitioner would need to identify relevant risks and plan appropriately to respond to such risks.

17. The AASB disagreed with this view. The standard is intended to address engagements that arise from an audit or a review of financial statements, with only limited additional procedures performed. While it would be possible for a practitioner to perform more extensive procedures to obtain sufficient information to be able to report on a supplementary matter, this type of engagement is not envisioned in the scope of this CSRS. Therefore, the AASB did not change this requirement.

18. One respondent suggested that the standard address more specifically other reporting responsibilities when the related audit or review engagement has not yet been completed. This respondent felt that the related audit or review engagement would need to be sufficiently advanced to provide the practitioner with the appropriate knowledge of the supplementary matter to be able to respond to the other reporting responsibility.

19. The AASB disagreed with this view. In some cases, depending on the nature of the matter, the practitioner may have enough knowledge to be able to respond to the other reporting responsibility quite early in the related audit or review engagement. Therefore, the AASB decided not to make any changes to the standard in response to this comment.

*Performing the Engagement*

20. Paragraph 21 of ED-4460 proposed that the practitioner be required to perform certain procedures when management is responsible for preparing the supplementary matter.
21. Some respondents to ED-4460 felt that the relationship between the proposed requirement in paragraph 20(a) for the practitioner to establish criteria for the engagement and the material in paragraph 21(a) regarding criteria used by management could be stated more clearly.
22. The AASB agreed and paragraph 21 was revised to make it clear that the practitioner would consider the criteria used by management referred to in this paragraph when establishing criteria under paragraph 20.
23. Another respondent to ED-4460 suggested that more guidance be provided with regard to establishing or identifying criteria against which to assess the supplementary matter. In particular, the respondent asked that paragraph A37 be clarified to specify that even though the criteria listed may meet the definition of suitable criteria, the engagement does not become an assurance engagement. The AASB agreed.
24. Paragraphs A40 and A41 were added to provide more guidance on the development of criteria, including sources to which the practitioner may refer.

*Significant Interpretations*

25. Paragraph 20(c) of ED-4460 proposed that the practitioner be required to identify items that are subject to significant interpretation and define or interpret them. Paragraph 27(i) of ED-4460 proposed requiring the practitioner to disclose that the practitioner's interpretations may differ from other interpretations.

26. Respondents to ED-4460 were split on this issue. Some supported the AASB's proposals, while others felt that including the interpretations used by the practitioner in the report should be mandated. Still others felt that the practitioner should obtain the third party's input and approval of an interpretation as part of accepting the engagement. In these cases, there would be no need to include any interpretations in the practitioner's report.
27. The AASB concluded that whether to include the identification and interpretation of significant items in the report should be left to the practitioner's professional judgment. Paragraph 27(i) was revised to require that, when the supplementary matter includes items that are subject to significant interpretation for which no interpretations have been received from the third party, the practitioner include a statement that the practitioner's interpretations may differ from other interpretations. Paragraph A61 clarifies that the practitioner decides whether to include an interpretation in the practitioner's report and provides some examples of the wording such disclosure may take.
28. The AASB made this decision on the basis that requiring practitioners to include interpretations in the practitioner's report would be too prescriptive.

*Content of the Report*

29. Some respondents to ED-4460 felt that additional disclosure in the report would assist users in better understanding that no assurance is being provided. These respondents believed that disclosing the additional procedures performed in the report would assist users in understanding the nature of the work done, the results of the work and the usefulness of the report. Alternatively, one respondent suggested stating more clearly in the report that the practitioner is not providing assurance to the reader.
  30. One of the objectives of this project was to improve consistency in reporting. Requiring practitioners to describe procedures would be counter to this objective since there would be inconsistency in reporting. It could be difficult for users to understand why there are differences in the reports.
  31. The AASB decided that it would allow, but not require, the practitioner to make reference in the report to procedures performed. Guidance was added in paragraph A64.
  32. Regarding including an explicit statement in the report that the practitioner is not providing assurance, the AASB felt that such a statement should be avoided. It is not likely that this would prevent a reader from taking assurance. Paragraph 27(h) of ED-4460 proposed that the practitioner include a clear statement that an audit opinion or a review conclusion is not being expressed on the supplementary matter. The AASB felt that this was sufficiently clear and made no change.
  33. Other respondents and participants at consultation sessions felt that the report was too lengthy and should be shortened. They felt that the longer the report, the greater the likelihood that, even though the practitioner does not intend to provide assurance, users may nevertheless take some level of assurance from the report.
  34. The AASB concluded that the length of the report should not be reduced, since that would result in deleting information important to users. The first paragraph sets out the scope of the report, an essential feature. The second and third paragraphs make the limitations of the report clear (that is, it is important to indicate that the practitioner has not performed an audit or a review of the supplementary matter). The fourth paragraph is the conclusion, the length of which will depend on the nature of the supplementary matter. Finally, the last paragraph is a restriction on distribution. Some limited minor changes to the report were made; however, these do not significantly reduce the length of the report. The AASB believes that the requirements in the standard and the related illustrative reports are appropriate.
  35. One respondent felt that the requirement in paragraph 27(g)(ii) to state in the practitioner's report that procedures vary in nature from, and are less in extent than for, an audit or a review engagement would be confusing to readers. This respondent felt that no additional procedures would be applied over and above those performed for the audit. The respondent also felt that the wording might be misinterpreted to indicate, for example, that the practitioner would not necessarily have performed all the procedures necessary to form the practitioner's opinion on the financial statements. The respondent referred to guidance previously provided in ASSURANCE AND RELATED SERVICES GUIDELINE AuG-13, Special Reports on Regulated Financial Institutions, to support this argument.
  36. The procedures referred to in the report are not the same as those performed in the related audit or review engagement. The AASB decided that the practitioner would generally need to perform some additional procedures, as this standard is not purely a by-product of the related audit or review engagement. The practitioner would still be performing procedures for the related audit or review engagement, but would also be required by paragraphs 20 and 21 to perform some additional procedures, if necessary, to form a basis for the report. Therefore, the AASB has not made any changes to the standard regarding this matter.
  37. Another respondent questioned how extensive the conclusion in the fourth paragraph of the report would need to be to satisfy the requirement in paragraph 27(j). This respondent asked the AASB to consider additional application material in the standard, along with some examples.
  38. The AASB agreed and examples of the practitioner's response to the other reporting responsibility were added in paragraph A62.
- Withdrawal of AuG-4*
39. The majority of respondents to ED-4460 and participants at the consultation sessions supported the withdrawal of ASSURANCE AND RELATED SERVICES GUIDELINE AuG-4, Services on Matters Relating to Solvency. However, a few participants expressed concern that an unintended consequence of withdrawing AuG-4 would be that

practitioners would no longer be able to refer to that Guideline in asserting that they cannot provide comments on solvency when requested by third parties, as CSRS 4460 does not contain material specific to solvency. The AASB believes that including material addressing solvency in CSRS 4460 would be too specific; the standard should be applicable to a wide variety of situations and entities.

40. The AASB concluded that AuG-4 should not be withdrawn.  
*Withdrawal of AuG-13*
41. The majority of respondents to ED-4460 supported the withdrawal of AuG-13, as practitioners would now report based on the new standard.
42. One respondent felt that situations in which the auditor of a financial institution may be called upon to report under AuG-13 do not seem to have been sufficiently conveyed in ED-4460. This respondent also believed that AuG-13 was much clearer and specific regarding situations where the entity does not prepare information on the supplementary matter and in addressing the inherent limitations in this type of report. The respondent suggested that examples and material from AuG-13 be added to enhance the proposed standard.
43. The AASB believed that examples provided in paragraph A6 of ED-4460 are sufficient. CSRS 4460 applies to many different types of situations and entities, not just financial institutions. The AASB felt that if too many examples specific to financial institutions were added, readers may believe incorrectly that the scope of the standard is restricted to financial institutions and may not apply it in other circumstances. Further, much of the material in AuG-13 would not be applicable in the standard, as AuG-13 was based on the premise that no additional procedures would need to be performed by the practitioner. Therefore, the AASB made no changes to the standard.
44. AuG-13 contains guidance related to "non-derivative" reports, but these are not requirements. AuG-13 refers to the standards in the Handbook that contain the requirements. One respondent felt that the non-derivative material contained in AuG-13 should be retained until the AASB finalizes its revision of Sections 5800, *Special Reports — Introduction*, and 5815, *Special Reports — Audit Reports on Compliance with Agreements, Statutes and Regulations*.
45. The AASB noted that withdrawal of AuG-13 would not result in withdrawal of any requirements. In redrafting Sections 5800 and 5815, the AASB will consider whether any guidance currently in AuG-13 should be retained.
46. The AASB concluded that it will proceed with withdrawing AuG-13.

#### **List of Respondents to the ED**

Institute of Chartered Accountants of British Columbia

Raymond Chabot Grant Thornton and Grant Thornton

PwC

MNP

Desjardins

Office of the Auditor General of Manitoba

#### **Summary of Participants in Webinars**

Registered – 2,175 Participated in webinar – 835 Viewed archive (as of December 13, 2013) – 535

#### **Summary of Participants in Face-to-Face Consultations**

Location	Date	Practitioners	Users of the practitioner's report	Other
Toronto	September 23	7	1	6
Halifax	September 25	6	0	1
St. John's	September 26	11	0	1
Winnipeg	October 1	4	0	1
Calgary	October 2	5	0	1
Edmonton	October 3	5	0	3
Vancouver	October 4	9	0	4
Quebec City	October 23	2	10	2
		49	11	19

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