

BASIS FOR CONCLUSIONS CANADIAN STANDARD ON ASSURANCE ENGAGEMENTS (CSAE) 3410, Assurance Engagements on Greenhouse Gas Statements

September 2012

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 Assurance Engagements (CSAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*.

Purpose of this Basis for Conclusions

This Basis for Conclusions has been prepared to make Canadian stakeholders aware of the following:

- (a) A Basis for Conclusions prepared by International Auditing and Assurance Standards Board (IAASB) staff for International Standard on Assurance Engagement (ISAE) 3410 is available on the IAASB web site and provides information on how the IAASB dealt with comments received on significant matters in response to its Exposure Draft of ISAE 3410 (ED-ISAE 3410).
- (b) Information on how the AASB dealt with significant matters arising from comments received in response to its ED-CSAE 3410 and other matters particular to Canada is also available. This information is set out below.

Background

In January 2011, the IAASB developed and issued its ED-ISAE 3410. The IAASB approved final ISAE 3410 in March 2012, subject to confirmation by the Public Interest Oversight Board (PIOB) that due process was followed. This confirmation was received in June 2012.

In March 2011, the AASB issued its Exposure Draft to adopt proposed ISAE 3410 as CSAE 3410.

There was one respondent to ED-CSAE 3410 (identified below). In addition to this response, various stakeholders provided input on ED-CSAE 3410 to the AASB staff, but did not submit formal responses.

The AASB determined that the changes made to CSAE 3410 from the ED-CSAE 3410 were not significant and, therefore, re-exposure was not required. The AASB approved CSAE 3410 in April 2012. The Auditing and Assurance Standards Oversight Council confirmed that the AASB followed due process in the development of this CSAE prior to its issuance in the CICA Handbook – Assurance.

Significant Matters Arising from Comments in Response to ED-CSAE 3410

AASB's Consideration of Amendments to ISAE wording

1. CSAE 3410 contains amendments to the ISAE wording as proposed in the ED-CSAE 3410. The amendments, stakeholder comments received on those amendments, and the AASB's conclusions thereon, are set out below.
2. A practitioner in Canada performing an assurance engagement on a greenhouse gas statement would need to comply with CSAE 3410 and other Canadian standards that apply to all assurance engagements other than audits of financial statements and other historical financial information. A practitioner outside of Canada performing an engagement under ISAE 3410 is required to comply with ISAE 3000, *Standards for Assurance Engagements Other than Audits or Reviews of Financial Information*. The AASB is not committed to adopting ISAE 3000. Therefore, differences between ISAE 3000 and the applicable Canadian assurance standards need to be considered in adopting ISAE 3410 as CSAE 3410. Matters related to these differences, and the related Canadian amendments, are discussed below.

Terminology – audit and moderate level of assurance engagements vs. reasonable and limited assurance engagements

3. ISAE 3410 covers engagements that provide either "reasonable assurance" or "limited assurance." This terminology comes from ISAE 3000. The equivalent terms in Section 5025, STANDARDS FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OF FINANCIAL STATEMENTS AND OTHER HISTORICAL FINANCIAL INFORMATION, are "audit engagements (or high level assurance engagements)" and "moderate level assurance engagements" respectively. The Section 5025 terminology is used in CSAE 3410.
4. An informal comment regarding ED CSAE 3410 suggested that the term "moderate level of assurance" seemed to imply a higher level of assurance and work effort than those normally associated with a review engagement. This implication is correct. Section 5025 uses the terms "review" as well "moderate level assurance". However, the term "review" is not used in ED-CSAE 3410 because the AASB felt that its use would give a false impression that the procedures performed in a moderate level assurance engagement regarding a greenhouse gas statement would normally be limited to inquiry and analytical procedures, similar to a review of financial statements. A moderate level assurance engagement, as contemplated in CSAE 3410, normally requires procedures that go well beyond inquiry and analytical procedures. Accordingly, no change was made regarding this terminology in finalizing the CSAE.

Terminology – experts vs. specialists

5. CSAE 3410, like proposed ISAE 3410, uses the term "expert". This term is also used in the Canadian Auditing Standards (CASS). However, Section 5049, USE OF SPECIALISTS IN ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OF FINANCIAL STATEMENTS AND OTHER HISTORICAL FINANCIAL INFORMATION, uses the term "specialist". Because of this inconsistency in terminology, ED-CSAE 3410 proposed to include an explanatory footnote stating that in applying Section 5049, to engagements under CSAE 3410, the term "specialist" equates to the term "expert". No change was made regarding this explanation in finalizing the CSAE. However, the explanation was moved from a footnote to paragraph CA42 to give it more prominence.
6. An informal comment on ED-CSAE 3410 suggested that the explanatory note include a reference to similar terminology used in the Institute of Chartered Accountants of Ontario (ICAO) Rules of Professional Conduct. The AASB noted that the terms "experts" and "specialists", as used in CSAE 3410 and Section 5049, are defined in the standards and, therefore, such a reference would not be appropriate.

References to code of ethics / rules of professional conduct

7. ISAE 3410 makes numerous references to the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code). Practitioners in Canada are generally required to comply with the rules of professional conduct / code of ethics established by professional accounting or other professional bodies whose rules / code may differ from the IESBA Code. The rules, codes and practices followed by practitioners in Canada and the IESBA Code are constantly evolving. Therefore, references to IESBA Code are replaced with the term "relevant ethical requirements" in CSAE 3410.
8. An informal comment on ED-CSAE 3410 suggested that the term "relevant ethical requirements" is too vague. The AASB reaffirmed that the term "relevant ethical requirements" is appropriate. Practitioners in Canada are subject to rules of professional conduct, codes of ethics, and other relevant ethical requirements established by different professional bodies. It would be neither practicable, nor appropriate, to make reference to one set of ethical requirements and require other practitioners to follow them. The AASB also noted that the terminology is consistent with the approach taken in adopting other international standards and is discussed in the *Preface to the CICA Handbook – Assurance*.

Other Matters

Use of the letters "L" vs. "M" to denote moderate level assurance engagements, and use of the letters "R" vs. "A" to denote audit engagements

9. ISAE 3410 and CSAE 3410 contain certain requirements that apply to audit engagements only or to moderate level assurance engagements only. In ISAE 3410, such requirements have been presented in a columnar format with the letters "L" for limited assurance engagements and "R" for reasonable assurance engagements. In ED-CSAE 3410, such requirements were proposed to be presented with the letters "M" for moderate level assurance engagements and "A" for audit engagements.
10. In finalizing the CSAE, the AASB concluded that it would be preferable to retain the letters "L" and "R" used in ISAE 3410 for the following reasons:
 - (a) Use of the letter "A" after the paragraph number to identify an audit specific procedure would be confusing because that approach is used to identify Canadian-only paragraphs added to a standard.
 - (b) Retention of the letters "L" and "R" in CSAE 3410 will promote consistency with ISAE 3410.

Accordingly, a Canadian amendment is made in paragraph C8 to explain the use of the letters "L" and "R" to denote moderate level assurance and audit engagements respectively.

Change in the scope of the engagement

11. Paragraph A37 of ISAE 3410 refers to paragraph 11 of ISAE 3000, which requires that the practitioner not agree to a change in the scope of the engagement where there is no reasonable justification for doing so. Section 5025 does not contain such a requirement. To ensure consistency between the requirements of CSAE 3410 and those of ISAE 3410, the AASB added paragraph C15A:

If management requests a change in the scope of the engagement before the completion of the engagement, the practitioner shall be satisfied that a reasonable justification for the change exists before agreeing to the change.

A corresponding Canadian amendment is made in paragraph CA37 to delete the reference to the requirement in ISAE 3000.

Assessing appropriateness of the subject matter

12. Paragraph A21 of ISAE 3410 refers to paragraph 18 of ISAE 3000, which requires the practitioner to assess the appropriateness of the subject to assist the practitioner in evaluating whether to accept the assurance engagement.
13. Section 5025 does not contain a requirement that specifically refers to assessing the appropriateness of the subject matter. However, paragraph 5025.16 contains a similar requirement for the practitioner to have a reasonable basis for believing the engagement can be completed before undertaking the assurance engagement. Paragraph 5025.17 provides guidance that the assurance engagement should be performed only when the practitioner has a reasonable basis for believing a conclusion with the intended level of assurance concerning the subject matter can be provided and that the conclusion can be meaningful to intended users of the practitioner's report. Therefore, a Canadian amendment has been made to

paragraph CA21 to better explain the application of paragraphs 5025.16-17 in the context of an assurance engagement on a greenhouse gas statement.

Respondent to ED-CSAE 3410

Walter Ross, FCA

Footnotes

1. STANDARDS FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OF FINANCIAL STATEMENTS AND OTHER HISTORICAL FINANCIAL INFORMATION, Section 5025, QUALITY CONTROL PROCEDURES FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OF FINANCIAL STATEMENTS AND OTHER HISTORICAL FINANCIAL INFORMATION, Section 5030, USE OF SPECIALISTS IN ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OF FINANCIAL STATEMENTS AND OTHER HISTORICAL FINANCIAL INFORMATION, Section 5049, and USING THE WORK OF INTERNAL AUDIT IN ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OF FINANCIAL STATEMENTS AND OTHER HISTORICAL FINANCIAL INFORMATION, Section 5050.

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