

assurance and related services guideline

AuG-49

reporting on compliance with specified authorities for transactions coming to the auditor's notice during the audit of financial statements

Basis for Conclusions

This Guideline is to be read in conjunction with the *Preface to the CPA Canada Handbook – Assurance*.

Effective for reports dated on or after April 1, 2019.

Earlier application is permitted.

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Appendix

SCOPE

1. This Guideline provides guidance to auditors of public sector entities on the form of the auditor's report when expressing an audit opinion on whether the transactions that have come to the auditor's notice during the audit of financial statements complied with specified authorities.
2. In this Guideline, the term "specified authorities" refers to legislation, regulations, orders-in-council, directives, municipal by-laws, corporate by-laws and other instruments through which powers are established and delegated.
3. Auditors of public sector entities may use various reporting mechanisms (for example, an annual report, a report to a minister, a report to a public accounts committee) to report findings from their audits. Since the nature of the reporting responsibility addressed by this Guideline is specifically linked to the audit of the financial statements, this Guideline outlines how the auditor's report on compliance with specified authorities may be included as part of the auditor's report on the financial statements.
4. This Guideline does not apply to the following engagements:
 - (a) Attestation engagements to report on management's statement of the entity's compliance with specified requirements: For this engagement, the practitioner would apply the requirements in [CSAE 3530, Attestation Engagements to Report on Compliance](#).
 - (b) Direct engagements to report on the entity's compliance with specified requirements: For this engagement, the practitioner would apply the requirements in [CSAE 3531, Direct Engagement to Report on Compliance](#).
 - (c) An engagement other than an audit or review to report instances of non-compliance with specified authorities observed in the course of discharging their audit responsibilities: For this engagement, the practitioner would apply the requirements in [CSRS 4460, Reports on Supplementary Matters Arising from an Audit or a Review Engagement](#).
5. Paragraph 43 of CAS 700, *Forming an Opinion and Reporting on Financial Statements*, requires that if the auditor addresses "other reporting responsibilities" in the auditor's report on the financial statements that are in addition to the auditor's responsibilities under the CAs, these other reporting responsibilities be addressed in a separate section in the auditor's report that is subtitled "Report on Other Legal and Regulatory Requirements" or otherwise as appropriate to the content of the section. Reporting on transactions that have come to the auditor's notice during the audit of financial statements is an "other reporting responsibility". This Guideline outlines how the compliance opinion may be reported in a separate section of the auditor's report.

6. Paragraph [43](#) of CAS 700 allows the auditor to report "other reporting responsibilities" together with the auditor's report on the financial statements, when the "other reporting responsibilities" address the same topics as those presented under the reporting responsibilities required by the CASs. This Guideline does not provide guidance on how to report under these circumstances.

BACKGROUND

7. Public sector entities carry out their operations under the authority provided by relevant incorporating or enabling legislation. Legislation may set out directions, conditions and limitations that affect the administration and transactions of these entities and with which they must comply. For example, all government spending, revenue-raising, borrowing and investing activities are undertaken under the authority provided in legislation. Legislation also designates administrative responsibilities and powers, and provides direction in performing those functions. For example, it may govern the appointment of boards and commissions or prescribe procedures to follow in the acquisition of goods and services.
8. Legislation may delegate broad financial and administrative powers to governments, ministers, agencies and enterprises, which in turn may establish authorities with which entities must comply. Such authorities are subordinate to the enabling legislation and must comply with the directions, conditions and limitations set out in that legislation.
9. This structure of authorities constitutes a basis for control over the source, allocation and use of public resources. It has a pervasive effect on the activities of public sector entities that are accountable for operating in accordance with the authority provided to them.
10. Public sector entities may be subject to the provisions of numerous authorities. The auditor of such an entity requires knowledge of and familiarity with the authorities that apply to the entity being audited and the transactions for which it is responsible. Because the wording of these authorities may be subject to differing interpretations, the auditor may wish to obtain independent legal advice, particularly when there is reason to believe that authorities are being misinterpreted or that subordinate authorities do not adhere to the direction or limits prescribed by enabling legislation.

REPORTABLE TRANSACTIONS

11. The other reporting responsibility addressed in this Guideline refers to the examination of transactions for compliance with specified authorities. In the course of the audit of the financial statements, the transactions that are selected for financial statement attest purposes are also examined for compliance with specified authorities, when applicable. Since these transactions were not selected for the purpose of expressing an opinion on whether all the transactions of an entity complied with specified authorities, the auditor's report would identify these transactions by reference to the audit of the financial statements.
12. In this situation, the auditor seeks reasonable assurance that the authorities specified in the auditor's report have been complied with. Absolute assurance in auditing is not attainable because of such factors as the need for judgment, the use of testing, the inherent limitations of internal controls, and because much of the evidence available to the auditor is persuasive rather than conclusive in nature.

REPORTING ON COMPLIANCE WITH SPECIFIED AUTHORITIES

Unmodified opinion

13. When expressing an opinion on whether transactions that came to the auditor's notice during the audit of the financial statements complied with specified authorities, the following contents are appropriate in the auditor's report on compliance:
- (a) Following the section containing the auditor's report on the financial statements under the heading "Report on the Audit of the Financial Statements," a separate section in the auditor's report subtitled "Report on Compliance with Specified Authorities," or another appropriate title, to address the report on compliance.
- (b) A description of the nature of the audit, specifying:
- (i) that the audit relates to transactions coming to the auditor's notice during the audit of the financial statements; and
- (ii) the authorities against which compliance is being reported.
- (c) The auditor's opinion on whether the transactions coming to the auditor's notice during the audit of the financial statements have complied, in all material respects, with the specified authorities. The phrase "in all material respects" is used for expressing the opinion on the transactions audited for compliance.
- (d) A statement of management's responsibility for compliance with specified authorities, and for such internal control as management determines is necessary to enable the entity to comply with the specified authorities.
- (e) A statement of the Auditor's Responsibilities related to the compliance opinion, including the responsibility to:
- (i) plan and perform procedures to provide an audit opinion; and
- (ii) express an audit opinion on whether the transactions that have come to the auditor's notice during the audit of the financial statements complied with specified authorities.
- (f) When applicable:

- (i) a statement indicating that the specified authorities include requirements that are subject to significant interpretation; and
- (ii) a description of the significant interpretation(s).

Modified opinions

14. *CAS 705, Modifications to the Opinion in the Independent Auditor's Report*, deals with the auditor's responsibility to issue an appropriate report when the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary. CAS 705 may also be relevant when the auditor determines that it is necessary to modify the auditor's opinion when reporting on compliance in accordance with this Guideline.
15. When the auditor identifies non-compliance with specified authorities, the impact of such non-compliance on the audit of the financial statements needs to be considered.
16. When the auditor modifies the auditor's opinion on compliance, the auditor uses the heading "Qualified Opinion," "Adverse Opinion" or "Disclaimer of Opinion," as appropriate, for the opinion paragraph.
17. When the auditor expresses a qualified opinion, the following wording for the opinion paragraph is appropriate:
In our opinion, except for the matter(s) of non-compliance described in the Basis for Qualified Opinion paragraph, the transactions of [the entity] that came to our notice during the audit of its financial statements have complied, in all material respects, with the specified authorities referred to above.
18. When the auditor expresses an adverse opinion, the following wording for the opinion paragraph is appropriate:
In our opinion, because of the significance of the matter(s) described in the Basis for Adverse Opinion paragraph, the transactions of [the entity] that came to our notice during the audit of its financial statements have not complied with the specified authorities referred to above.
19. When the auditor expresses a disclaimer of opinion, the following wording for the opinion paragraph is appropriate:
Because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on whether the transactions of [the entity] that came to our notice during the audit of its financial statements have complied, in all material respects, with the specified authorities referred to above.
20. When the auditor disclaims an opinion, the following wording of the first paragraph in the auditor's report on compliance is appropriate:
In conjunction with the audit of the financial statements, we examined transactions of [the entity] coming to our notice for compliance with specified authorities. The specified authorities against which compliance was examined are [identify the specified authorities].
21. When the auditor determines that it is necessary to modify the opinion when reporting in accordance with this Guideline, in addition to the specific elements set out in paragraph 13, the auditor includes a paragraph in the auditor's report on compliance that provides a description of the matter(s) causing the modification. This paragraph is placed immediately after the opinion paragraph in the auditor's report on compliance and uses the heading "Basis for Qualified Opinion," "Basis for Adverse Opinion" or "Basis for Disclaimer of Opinion," as appropriate.
22. In describing the basis for modification, the auditor specifies the authorities not complied with and describes the non-compliance matter(s).

APPENDIX – ILLUSTRATION OF AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIED AUTHORITIES

This example is provided to illustrate the form of the auditor's report when the auditor is expressing an audit opinion on whether the transactions that have come to the auditor's notice during an audit of financial statements complied with specified authorities. The auditor has determined the specified authorities for which compliance will be assessed. The specified authorities include requirements that are subject to significant interpretation. The auditor is able to obtain sufficient appropriate evidence to provide an audit opinion on compliance for the transactions noted, with no instances of non-compliance. The auditor considers appropriate amendments to take into account the circumstances of each engagement.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Statements 1

[Auditor's report on the financial statements of ABC Government Entity]

Report on Compliance with Specified Authorities 2

In conjunction with the audit of the financial statements, we have audited transactions of ABC Government Entity coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are [identify the specified authorities].

In our opinion, the transactions of ABC Government Entity that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above.

Management is responsible for ABC Government Entity's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the entity to comply with the specified authorities.

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the financial statements are in compliance with the specified authorities referred to above.

[(When applicable) The specified authorities include requirements that are subject to significant interpretation. The significant interpretations made during this audit are:

- [describe the significant interpretation(s).]

[Signature in the name of the firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor address]

[Date]

Footnotes

1. subtitle "Report on the Audit of the Financial Statements" is required when the second subtitle "Report on Other Legal and Regulatory Requirements" or otherwise as appropriate to the content of the section is applicable.

2. 700, paragraph , requires a subtitle for the other reporting responsibility. This subtitle or another appropriate subtitle based on the content of the section can be used.

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