TBS

Information Note

Ontario Internal Audit Division

Purpose / Overview

To comply with requirements under a new professional auditing standard, the Auditor General is introducing a Management Representation Letter (Letter). Sign-off on the Letter will be requested from relevant DMs/CEOs and ADMs/VPs for each value-for-money (VFM) audit, at the end of audit fieldwork when the report has been cleared.

The purpose of this Information Note is to provide context on why the Auditor General is implementing this requirement, and the new professional standard that relates to this.

New Auditing Standards - Background

The Auditor General conducts audits in accordance with the standards for assurance engagements, established by the Chartered Professional Accountants (CPA) of Canada.

CPA Canada has an Auditing and Assurance Standards Board (AASB), whose mandate is to establish standards for assurance and related services engagements. The AASB contributes to the development of International Standards on Auditing (ISAs), which it adopts as Canadian Auditing Standards (CASs), by participating in consultations and activities of the International Auditing and Assurance Standards Board (IAASB) to ensure Canadian entities' auditing needs are considered.

The Auditing and Assurance Standards Oversight Council (AASOC) oversees the activities of the AASB and ensures it follows its rigorous due process. AASOC appoints AASB members and provides input on strategy and priorities. AASOC also assesses and reports to the public on the performance of the AASB.

New Auditing Standards - Changes

In March 2015, the AASB approved 2 new Canadian Standards for Assurance Engagements (CSAE):

1. **CSAE 3000** - *Attestation Engagements Other than Audits or Reviews of Historical Financial Information*

2. **CSAE 3001** - *Direct Engagements*

These new CSAEs replace the Canadian umbrella assurance standards, including:

- Section 5025 - Standards for Assurance Engagements other than Audits of F/S and other historical financial information;
- Section 5030 - Quality Control Procedures for Assurance Engagements Other than Audits of F/S and other historical financial information;
- Section 5049 - Use of Specialists in Assurance Engagements Other than Audits of F/S and other historical financial information;
- Section 5050 - Using the Work of Internal Audit in Assurance Engagements Other than Audits of F/S and other historical financial information; and
- Section 8100 - General Review Standards (however Section 8100 will be retained until completion of the AASB's project to replace Section 8600).

The above Canadian umbrella assurance standards have been revised:

- To better align with international standards;
- To help maintain/enhance quality of assurance engagements; and
- Given that most assurance standards are quite old and need updating

Assurance engagements include both:

- Attestation engagements - a party other than the practitioner measures or evaluates the underlying subject matter against the criteria (CSAE 3000)
- Direct engagements - the practitioner measures or evaluates the underlying subject matter against the criteria (CSAE 3001)

The Auditor General's VFM audits are considered performance audits and therefore fall under the category of "Direct Engagements." Examples of direct engagements are provided in CSAE 3001 (A10) and include:

- Compliance with law or regulation - an engagement to obtain assurance on whether the entity has complied with relevant laws or regulations.
- Performance audit – an engagement to obtain assurance on any or all of the following:
  - The adequacy of management systems controls and practices, including those intended to control and safeguard assets, to ensure due regard to economy, efficiency and effectiveness.
  - The extent to which resources have been managed with due regard to economy and efficiency.
  - The extent to which programs, operations or activities of an entity have been effective.

New Auditing Standards – Effective Date for Changes

CSAE 3000 and 3001 take effect where the assurance report is dated on or after June 30, 2017. However, the Auditor General is intent on early adoption for her current 2016 audit cycle.

Written Representation (Management Representation Letter)

The new CSAE3001 standard includes a requirement for the Auditor General to obtain written representation from auditee management as part of their VFM assurance audit work.

The Letter serves to ensure that the management auditee confirms that it has provided the Auditor General with all information that they are aware has been requested or that could significantly affect the findings or conclusion of the audit report.

For reference, key excerpts taken directly from CSAE 3001 have been included as **Appendix 1**, which serve to outline the requirement under this new auditing standard for the Letter.

At a February 18, 2016 Corporate Audit Committee meeting, the Auditor General shared a draft of the new Letter and committed that she would be open to a further discussion/feedback regarding it.

On May 20, 2016, the TBS Deputy Minister / Chair of Corporate Audit Committee and Ontario's Chief Internal Auditor met with the Auditor General to provide feedback on the draft Letter.

On August 16, 2016, agreement on the wording to solidify a final version of the Letter was confirmed by the TBS Deputy Minister / Chair of Corporate Audit Committee, Ontario's Chief Internal Auditor and the Auditor General.

The Auditor General is expected to provide the final version of the Letter to program areas subject to a 2016 VFM audit shortly, and will be requesting sign-off from relevant DMs/CEOs and ADMs/VPs.

CSAE 3001 indicates that the date of the Management Representation Letter, "*shall be as near as practicable to, but not after, the date of the assurance report."* The Auditor General defines this as the date that the DM/CEO clears the report.

Audit Service Teams will provide audit support to clients subject to Auditor General audits, including advice related to the consistency and effectiveness of processes supporting this new requirement to ensure accuracy, completeness and ultimately comfort in signing off.

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APPENDIX 1 – Key Excerpts from CSAE 3001 Related to the Requirement for a Management Representation Letter

Written Representations
61. *The practitioner shall request from the appropriate party(ies) a written representation that it has provided the practitioner with all information of which the appropriate party(ies) is aware that has been requested or that could significantly affect the findings or the conclusion of the assurance report. (Ref: Para. A52-A53, A136-A138)*

62. *If, in addition to required representations, the practitioner determines that it is necessary to obtain one or more written representations to support other evidence relevant to the underlying subject matter, the practitioner shall request such other written representations.*

63. *When written representations relate to matters that are significant to the underlying subject matter, the practitioner shall:*

- ***(a)*** *Evaluate their reasonableness and consistency with other evidence obtained, including other representations (oral or written); and*
- ***(b)*** *Consider whether those making the representations can be expected to be well-informed on the particular matters.*

64. *The date of the written representations shall be as near as practicable to, but not after, the date of the assurance report.*

Requested Written Representations Not Provided or Not Reliable
65. *If one or more of the requested written representations are not provided or the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations, or that the written representations are otherwise not reliable, the practitioner shall: (Ref: Para. A139)*

- ***(a)*** *Discuss the matter with the appropriate party(ies);*
- ***(b)*** *Reevaluate the integrity of those from whom the representations were requested or received and evaluate the effect that this may have on the reliability of representations (oral or written) and evidence in general; and*
- ***(c)*** *Take appropriate actions, including determining the possible effect on the conclusion in the assurance report.*

Subsequent Events
66. *When relevant to the engagement, the practitioner shall consider the effect on the underlying subject matter and on the assurance report of events up to the date of the assurance report, and shall respond appropriately to facts that become known to the practitioner after the date of the assurance report that, had they been known to the practitioner at that date, may have caused the practitioner to amend the assurance report. The extent of consideration of subsequent events depends on the potential for such events to affect the underlying subject matter and to affect the appropriateness of the practitioner's conclusion. However, the practitioner has no responsibility to perform any procedures regarding the underlying subject matter after the date of the assurance report. (Ref: Para. A140-A141)*

Forming the Assurance Conclusion
68. *The practitioner shall evaluate the sufficiency and appropriateness of the evidence obtained in the context of the engagement and, if necessary in the circumstances, attempt to obtain further evidence. The practitioner shall consider all relevant evidence, regardless of whether it appears to corroborate or to contradict the measurement or evaluation of the underlying subject matter against the applicable criteria. If*

the practitioner is unable to obtain necessary further evidence, the practitioner shall consider the implications for the practitioner's conclusion in paragraph 69. (Ref: Para. A146-A152)

69. *The practitioner shall form a conclusion about whether the underlying subject matter is free from significant deviation. In forming that conclusion, the practitioner shall consider the practitioner's conclusion in paragraph 68 regarding the sufficiency and appropriateness of evidence obtained and an evaluation of whether identified deviations are significant, individually or in the aggregate. (Ref: Para. A5, A119, A153-A154)*

70. *If the practitioner is unable to obtain sufficient appropriate evidence, a scope limitation exists and the practitioner shall express a qualified conclusion, disclaim a conclusion, or withdraw from the engagement, where withdrawal is possible under applicable law or regulation, as appropriate. (Ref: Para. A155-A157)*

Access to records (Ref: Para. 61)

A52. *Seeking the agreement of the appropriate party(ies) that it acknowledges and understands its responsibility to provide the practitioner with the following may assist the practitioner in determining whether the engagement exhibits the characteristic of access to evidence:*

- ***(a)*** *Access to all information of which the appropriate party(ies) is aware that is relevant to the engagement, such as records, documentation and other matters;*
- ***(b)*** *Additional information that the practitioner may request from the appropriate party(ies) for the purpose of the engagement; and*
- ***(c)*** *Unrestricted access to persons from the appropriate party(ies) from whom the practitioner determines it necessary to obtain evidence.*

A53. *The nature of relationships between the responsible party and the engaging party may affect the practitioner's ability to access records, documentation and other information the practitioner may require as evidence to complete the engagement. The nature of such relationships may therefore be a relevant consideration when determining whether or not to accept the engagement. Examples of some circumstances in which the nature of these relationships may be problematic are included in paragraph A139.*

Written Representations (Ref: Para. 61)

A136. *Written confirmation of oral representations reduces the possibility of misunderstandings between the practitioner and the appropriate party(ies). The person(s) from whom the practitioner requests written representations will ordinarily be a member of senior management or those charged with governance depending on, for example, the management and governance structure of the appropriate party(ies), which may vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics.*

A137. *Other written representations requested may include the following:*

- *That the appropriate party(ies) has communicated to the practitioner all deficiencies in internal control relevant to the engagement that are not clearly trivial and inconsequential of which the appropriate party(ies) is aware; and*
- *That the responsible party acknowledges responsibility for the underlying subject matter.*

A138. *Representations by the appropriate party(ies) cannot replace other evidence the practitioner could reasonably expect to be available. Although written representations provide necessary evidence, they do not provide sufficient appropriate evidence on their own about any of the matters with which they deal. Furthermore, the fact that the practitioner has received reliable written representations does not affect the nature or extent of other evidence that the practitioner obtains.*

Requested Written Representations Not Provided or Not Reliable (Ref: Para. 65)

A139. *Circumstances in which the practitioner may not be able to obtain requested written representations include, for example, when:*

- *An intended user engages the practitioner to undertake an assurance engagement on the underlying subject matter but does not have a relationship with the responsible party of the kind necessary to ensure that party responds to the practitioner's request for a written representation.*
- *The assurance engagement is undertaken against the wishes of the responsible party. This may be the case when, for example, the engagement is undertaken pursuant to a court order, or a public sector practitioner is required by the legislature or other competent authority to undertake a particular engagement.*

In these or similar circumstances, the practitioner may not have access to the evidence needed to support the practitioner's conclusion. If this is the case paragraph 70 of this CSAE applies.

Subsequent Events (Ref: Para. 66)

A140. *Consideration of subsequent events in some assurance engagements may not be relevant because of the nature of the underlying subject matter. For example, when the engagement requires a conclusion about the accuracy of a statistical return at a point in time, events occurring between that point in time and the date of the assurance report may not affect the conclusion or require disclosure in the return or the assurance report.*

A141*. As noted in paragraph 66, the practitioner has no responsibility to perform any procedures regarding the underlying subject matter after the date of the practitioner's report. However, if, after the date of the practitioner's report, a fact becomes known to the practitioner that, had it been known to the practitioner at the date of the practitioner's report, may have caused the practitioner to amend the report, the practitioner may need to discuss the matter with the appropriate party(ies) or take other action as appropriate in the circumstances.*