

# Audit & Assurance Alert

## CANADIAN AUDITING STANDARDS (CAS)

DECEMBER 2017

### Reports for Audits Conducted in Accordance with Both Canadian Auditing Standards and the Standards of the Public Company Accounting Oversight Board (United States)

#### Introduction

This *Audit & Assurance Alert* is being issued to raise awareness about changes to the combined Canadian Auditing Standards (CASs) and Public Company Accounting Oversight Board (United States) (PCAOB) auditor's report for fiscal years ending between the periods of December 15, 2017 to December 15, 2018.

On October 24, 2017, the U.S. Securities and Exchange Commission (SEC) approved significant enhancements to PCAOB standards regarding the auditor's report, including changing the geographical location of the paragraphs, enhancement to the auditor's responsibilities, communication of critical audit matters ("CAMs") and the disclosure of auditor tenure. Refer to the following link for the SEC statement of approval of the PCAOB auditor reporting standard. [www.sec.gov/news/public-statement/clayton-statement-pcaob-new-auditor-reporting-standard](http://www.sec.gov/news/public-statement/clayton-statement-pcaob-new-auditor-reporting-standard)

As a result of these enhancements, practitioners engaged to perform audits of SEC issuers may need to consider the impact on their auditor's report for fiscal years ending on or after December 15, 2017, particularly for auditors who have historically issued, or have been

engaged to issue, a combined Generally accepted auditing standards (CAS/PCAOB) auditor's report. Section 5 of the guide titled "Reporting Implications of New Auditing and Accounting Standards (Issue No. 12—April 2014)" is no longer valid.

This *Alert* highlights for auditors, a sample illustration of a combined CAS and PCAOB auditor's report that may be used for fiscal years ending between the periods of December 15, 2017 to December 15, 2018. This *Alert* does not address all aspects of the PCAOB Auditor Reporting Standards.

## Illustrative Report

1. This Illustrative Report deals with the specific circumstances of reporting in accordance with the reporting standards in the CASs and in the standards of the PCAOB. It is assumed that the auditor has complied with the requirements in paragraphs 51 and 52 of CAS 700, *Forming an Opinion and Reporting on Financial Statements*. Paragraph A77 of CAS 700 indicates that when there is a conflict between the requirements in the CASs and the requirements in national auditing standards, the auditor's report refers only to the auditing standards in accordance with which the auditor's report has been prepared. The PCAOB standards require an explanatory paragraph in certain circumstances. CAS 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, permits the auditor to add an emphasis of matter paragraph or an other matter paragraph to the auditor's report. Accordingly, CAS 706 permits the auditor to avoid conflicts with PCAOB reporting standards by adding the relevant explanatory paragraph to the auditor's report.
2. The Illustrative Report has been designed to comply with the reporting standards of both the CASs and the PCAOB standards.
3. The Illustrative Report assumes that the auditor has audited the entity's internal control over financial reporting but chooses to issue separate reports on the financial statements and internal control over financial reporting. The auditor may choose to issue a combined report on the financial statements and internal control over financial reporting. An example of a combined report is not included in this Alert.
4. Accordingly, the Illustrative Report omits reference in the auditor's responsibility section to the phrase that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control, as required by paragraph 39(b)(ii) of CAS 700. The Illustrative Report also includes an Other Matter paragraph referring to the fact that the auditor has audited, in accordance with the standards of the PCAOB, the entity's internal control over financial reporting. This Other Matter paragraph is required under PCAOB standards; however, it is permitted but not required under the CASs.
5. The US Securities and Exchange Commission requires that when financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) the financial reporting framework should be described as "International Financial Reporting Standards as issued by the International Accounting Standards Board." This wording is required to be reflected in the auditor's report.

6. In the event that the auditor is not engaged to report on internal control over financial reporting, the Illustrative Report would be affected as follows:
  - a. The “Report on internal control over financial reporting” paragraph would not be included;
  - b. The description of the audit responsibility would be modified as follow (bold text has been used to identify differences in the wording):

An audit includes performing procedures to assess the risks of material misstatements of the (consolidated) financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included obtaining and examining, on a test basis, audit evidence regarding the amounts and disclosures in the (consolidated) financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the (consolidated) financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation and fair presentation of the (consolidated) financial statements in order to design audit procedures that are appropriate in the circumstances, **but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. The Entity is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Accordingly, we express no such opinion.**

## **For Purposes of This Illustrative Report, the Following Circumstances Are Assumed:**

### ***Type of Entity***

- The entity under audit is a listed entity.

### ***Subject Matter***

- The auditor reports on a complete set of financial statements.

### ***Comparative Information***

- The auditor is reporting under the comparative financial statements approach (i.e., the auditor’s opinion refers to each period for which financial statements are presented).

### ***Financial Reporting Framework***

- The applicable financial reporting framework is International Financial Reporting Standards (IFRS).

### ***Financial Statements***

- The periods presented in the IFRS financial statements: December 2017 & December 2016.

### ***Reporting implications***

- The audit is conducted in accordance with Canadian Auditing Standards and with the standards of the Public Company Accounting Oversight Board (PCAOB)
- The auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. The auditor’s report includes a paragraph referring to the Material Uncertainty Related to Going Concern

- The auditor’s report includes an Emphasis of Matter referring to a Change in Accounting Principle
- The auditor’s report includes an Other Matter paragraph referring to the separate report on Internal control over financial reporting audit. The framework used by management is Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Directors of ABC Company

### *Opinion on the (Consolidated) Financial Statements*

We have audited the accompanying (consolidated) financial statements of ABC Company (the “Entity”), which comprise the (consolidated) statements of financial position as at December 31, 2017 and December 31, 2016, the (consolidated) statements of comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, comprising a summary of significant accounting policies and other explanatory information (collectively referred to as the (consolidated) financial statements).

In our opinion, the (consolidated) financial statements present fairly, in all material respects, the (consolidated) financial position of the Entity as at December 31, 2017 and December 31, 2016, and its (consolidated) financial performance and its (consolidated) cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### *Material Uncertainty Related to Going Concern*

Without modifying our opinion, we draw attention to Note [X] to the (consolidated) financial statements, which indicates that the Entity incurred a (consolidated) net loss of \$X during the year ended December 31, 2017 and, as of that date, the Entity’s (consolidated) current liabilities exceeded its total assets by \$X. As stated in Note [X] to the (consolidated) financial statements, these events or conditions, along with other matters as set forth in Note [X], indicate that a material uncertainty exists that casts substantial doubt on the Entity’s ability to continue as a going concern.

### *Change in Accounting Principle*

Without qualifying our opinion on the (consolidated) financial statements, we draw attention to Note [Y] to the financial statements, which indicates that the Entity has changed its method of accounting for [describe accounting method changes] in [year(s) of financial statements that reflect the accounting change] due to adoption of [name of accounting pronouncement].

### *Report on Internal Control Over Financial Reporting*

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Entity’s internal control over financial reporting as of December 31, 2017, based on the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated [date] expressed an unqualified (unmodified) opinion on the effectiveness of the Entity’s internal control over financial reporting.

### *Basis for Opinion*

#### **A—Management’s Responsibility for the (Consolidated) Financial Statements**

Management is responsible for the preparation and fair presentation of these (consolidated) financial statements in accordance with International Financial Reporting Standards **as issued by the International Accounting Standards Board**, and for such internal control as management determines is necessary to enable the preparation of (consolidated) financial statements that are free from material misstatement, whether due to fraud or error.

**B—Auditors’ Responsibility**

Our responsibility is to express an opinion on these (consolidated) financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the (consolidated) financial statements are free from material misstatement, whether due to error or fraud. Those standards also require that we comply with ethical requirements, including independence. We are required to be independent with respect to the Entity in accordance with the ethical requirements that are relevant to our audit of the (consolidated) financial statements in Canada, the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We are a public accounting firm registered with the PCAOB.

An audit includes performing procedures to assess the risks of material misstatements of the (consolidated) financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included obtaining and examining, on a test basis, audit evidence regarding the amounts and disclosures in the (consolidated) financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the (consolidated) financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation and fair presentation of the (consolidated) financial statements in order to design audit procedures that are appropriate in the circumstances.

An audit also includes evaluating the appropriateness of accounting policies and principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the (consolidated) financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a reasonable basis for our audit opinion.

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Signature

This is our first year of service as the Entity’s auditor / We have served as the Entity’s auditor since [initial year of service].

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[City], Canada

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[Date]

## Other Resources

### CPA Canada

1. [Auditor Reporting Landing Page](#)

## Comments

Comments on this *Audit & Assurance Alert*, or suggestions for future Alerts should be sent to:

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