

Audit & Assurance Alert

CANADIAN AUDITING STANDARDS (CAS)

FEBRUARY 2019

New and Revised Auditor Reporting Standards

Originally published in May 2017 and has been updated in February 2019 to address a modification in the requirement to disclose the engagement partner's name.

This *Audit & Assurance Alert* is being issued to raise awareness of certain requirements pertaining to the new and revised auditor reporting standards and related conforming amendments effective for audits of financial statements for periods ending on or after December 15, 2018 (see [Appendix A](#)). The standards were approved by the Auditing and Assurance Standards Board in April 2017 and will be published in the *CPA Canada Handbook-Assurance* in June 2017.

Expected Benefits of the Changes to the Auditor's Report

The implications of these new and revised standards are significant and will impact those involved in the financial reporting process (i.e., management, those charged with governance (TCWG), including audit committees) as well as external auditors and financial statement users. The new report provides reporting of going concern matters, as well as entity-specific reporting of other information, and key audit matters for certain entities. The report also provides enhanced transparency by clarifying the scope of the auditor's work as well as the roles and responsibilities of the auditor, management and TCWG.

These changes aim to enhance communication by offering entity-specific information to make the auditor’s report more informative and relevant to user decision making.

For audits of entities when the auditor decides or when law or regulation requires the auditor to communicate key audit matters in the auditor’s report please refer to CPA Canada’s [Audit & Assurance Alert—Key Audit Matters](#) for further details.

What are the significant changes?

Changes to the Auditor’s Report and New Reporting Requirements	
For all audits	
Auditor’s Opinion	<ul style="list-style-type: none"> auditor’s opinion moved from the end of the auditor’s report to the very beginning
Auditor’s Independence and Ethics	<ul style="list-style-type: none"> an explicit statement of the auditor’s independence in accordance with relevant ethical requirements and the auditor’s fulfillment of other ethical responsibilities
Going Concern	<ul style="list-style-type: none"> a separate section under the heading “<i>Material Uncertainty Related to Going Concern</i>”, when a material uncertainty exists related to an entity’s ability to continue as a going concern and is adequately disclosed in the financial statements
Other Information (OI)	<ul style="list-style-type: none"> a separate section under the heading “<i>Other Information</i>”, when an entity prepares other information (e.g., an annual report) containing or accompanying the entity’s financial statements and auditor’s report thereon, to explain management’s and the auditor’s responsibilities for the other information and the auditor’s conclusion from reading and considering the other information about whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated For an audit of a non-listed entity this section will be added when, at the date of the audit report, the auditor has obtained some or all of the other information For an audit of a listed entity this section will be added when, at the date of the audit report, the auditor has obtained, or expects to obtain, the other information

Changes to the Auditor's Report and New Reporting Requirements

For all audits (continued)

Note: "Other Information" is financial or non-financial information (other than financial statements and the auditor's report) included in an entity's annual report. An entity's annual report may be a single document or a combination of documents that serve the same purpose.

Examples: Common examples of OI include: Management's Discussion and Analysis, Financial Statement Discussion and Analysis, Management Fund Report of Fund Performance and Glossy Annual Report

- please refer to CPA Canada [Audit & Assurance Alert—CAS 720—Other Information](#) for further details on the reporting requirements related to OI

Roles and Responsibilities

- an enhanced description of management's responsibilities for assessing the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate
- identification of TCWG (when applicable) and their responsibility for the oversight of the financial reporting process
- an enhanced description of the auditor's responsibilities, in particular, new descriptions related the auditor's responsibilities:
 - to conclude on the appropriateness of management's use of the going concern basis of accounting
 - in an audit of group financial statements
 - regarding communication with those charged with governance

For audits of listed entities

Roles and Responsibilities

- a new description of the auditor's responsibilities to provide a statement to TCWG that the auditor has complied with relevant ethical requirements regarding independence

Engagement Partner

- a new disclosure of the name of the engagement partner¹

For highlights of the changes to performance requirements, see [Appendix B](#).

¹ This requirement does not apply to audits of financial statements for periods ending before December 15, 2019 of entities that file an annual report or registration statement with the U.S. Securities and Exchange Commission when the engagement partner name appears on Form AP, *Auditor Reporting of Certain Audit Participants*, to be filed with the U.S. Public Company Accounting Oversight Board for that engagement.

Illustration of the New Auditor's Report

Although the example below assumes the financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) and that a comparative financial statement reporting approach is being used (i.e., opinion on two years), the changes highlighted apply equally in other circumstances.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of ABC Company (the Entity), which comprise the consolidated statement of financial position as at December 31, 20X1 and December 31, 20X0, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 20X1 and December 31, 20X0, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note X in the consolidated financial statements, which indicates that the Entity incurred a net loss of \$X during the year ended December 31, 20X1 and, as of that date, the Entity's current liabilities exceeded its total assets by \$X. As stated in Note X, these events or conditions, along with other matters as set forth in Note X, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

auditor's opinion moved from the end of the auditor's report to the very beginning

explicit statement about the auditor's independence in accordance with relevant ethical requirements and the auditor's fulfillment of other ethical responsibilities

separate section when a material uncertainty exists related to an entity's ability to continue as a going concern, and is adequately disclosed in the financial statements

Other Information

[Reporting in accordance with CAS 720, *The Auditor's Responsibilities Relating to Other Information*—Refer to CPA Canada's **Audit & Assurance Alert—Other Information** for further details on the reporting requirements related to OI, including illustrative examples.]

separate section when an entity prepares other information, such as an annual report, containing or accompanying the entity's financial statements and auditor's report thereon, to explain management's and the auditor's responsibilities for the other information and the auditor's conclusion from reading and considering the other information

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

enhanced description of management's responsibilities for assessing the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

identification of those charged with governance, when applicable, and their responsibility for the oversight of the financial reporting process

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether 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. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

new description of the auditor's responsibilities to conclude on the appropriateness of management's use of the going concern basis of accounting

new description of the auditor's responsibilities in an audit of group financial statements

new description of the auditor's responsibilities regarding communications with TCWG

new description of the auditor's responsibilities to provide a statement to TCWG that the auditor has complied with relevant ethical requirements regarding independence for listed entities

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law, regulation, or national auditing standards.]

The engagement partner on the audit resulting in this independent auditor's report is *[name]*.

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

[Auditor Address]

[Date]

new disclosure of the name of the engagement partner for listed entities

Implications When Reporting in Other Jurisdictions

There may be implications to the auditor's report when an entity has reporting requirements in other jurisdictions, including the United States. At the time of this writing, the PCAOB has not concluded if they will adopt similar auditor reporting standards and as a result there may be a difference in reporting.

Other Resources

CPA Canada

1. [Audit & Assurance Alert—Key Audit Matters](#)
2. [FAQ for Management and Audit Committees—New Auditor Reporting Standards](#)
3. [Guide—Reporting Implications of the CASs](#)

Auditing and Assurance Standards Board (AASB)

1. [Basis for Conclusions: Reporting on Audited Financial Statements—New and Revised Auditor Reporting Standards and Related Conforming Amendments](#)
2. [Auditing and Assurance Bulletin titled “Addressing Disclosures in the Audit of Financial Statements”](#)

Appendix A—New and Amended CASs

The following standards in the *CPA Canada Handbook—Assurance* have been amended to address the new and revised standards:

- CAS 700, *Forming an Opinion and Reporting on Financial Statements*
- CAS 701, *Communicating Key Audit Matters in the Independent Auditor's Report*
- CAS 570, *Going Concern*
- CAS 260, *Communication with Those Charged with Governance*
- CAS 705, *Modifications to the Opinion in the Independent Auditor's Report*
- CAS 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*
- CAS 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*
- CAS 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*
- CAS 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*
- CAS 810, *Engagements to Report on Summary Financial Statements*

Conforming amendments to several other CASs:

- CAS 210, *Agreeing the Terms of Audit Engagements*
- CAS 220, *Quality Control for an Audit of Financial Statements*
- CAS 230, *Audit Documentation*
- CAS 510, *Initial Audit Engagements—Opening Balances*
- CAS 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*
- CAS 580, *Written Representations*
- CAS 600, *Special Considerations—Audits of Group Financial Statements (Including the work of Component Auditor's)*
- CAS 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements*

This Alert does not address all aspects in the above noted CASs; other CASs may contain additional requirements with which auditors must comply.

Appendix B—Highlights of Changes to Performance Requirements

For all audits

- | | |
|--|---|
| Going Concern | <ul style="list-style-type: none">auditor is now required to evaluate the adequacy of management's disclosure in the financial statements for "close calls" related to going concern (i.e., when events or conditions were identified that may cast significant doubt of an entity's ability to continue as a going concern but due to management's plans, the auditor concluded that no material uncertainty exists) |
| Financial Statement Disclosures | <ul style="list-style-type: none">please refer to the Auditing and Assurance Board (AASB) Auditing and Assurance Bulletin titled—Addressing Disclosures in the Audit of Financial Statements. |
| Other Information | <ul style="list-style-type: none">please refer to CPA Canada's Audit & Assurance Alert—CAS 720—Other Information for further details on all of the performance requirements related to OI. |

For audits of entities when the auditor decides, or when law or regulation requires the auditor, to communicate key audit matters in the auditor's report

- | | |
|--------------------------|---|
| Key Audit Matters | <ul style="list-style-type: none">please refer to CPA Canada's Audit & Assurance Alert—Key Audit Matters for further details on all of the performance requirements related to KAM. |
|--------------------------|---|

Comments

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

Mike Wynen, CPA, CA

Principal, Research, Guidance and Support

Audit & Assurance

Chartered Professional Accountants of Canada

277 Wellington Street West

Toronto ON M5V 3H2

Email: mwynen@cpacanada.ca

DISCLAIMER

This publication was prepared by the Chartered Professional Accountants of Canada (CPA Canada) as non-authoritative guidance.

CPA Canada and the authors do not accept any responsibility or liability that might occur directly or indirectly as a consequence of the use, application or reliance on this material. This Audit & Assurance Alert has not been issued under the authority of the Auditing and Assurance Standards Board.

Copyright © 2019 Chartered Professional Accountants of Canada