

# Reporting Implications of the Canadian Auditing Standards (CAS)

**4TH EDITION**





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# Foreword

## Purpose of this Guide

CPA Canada undertakes initiatives to support auditors and their clients in the implementation of standards. As part of these initiatives, CPA Canada has prepared this Guide to promote consistency in the form and content of auditor's reports by providing guidance with respect to commonly occurring circumstances. This *Guide* does not amend or override auditing standards, the texts of which alone are authoritative, nor does it necessarily address all audit reporting circumstances.

## Format of this Guide

This *Guide* will be updated periodically as further reporting issues are identified. The *Guide* will indicate its version date and the nature and extent of changes since the last version will be highlighted in each version.

This *Guide* presents a series of issues in Question and Answer format. It also presents a series of Illustrative Reports. These are designed to help auditors understand and apply requirements and supporting guidance issued by the Auditing and Assurance Standards Board relating to reporting.

## Preparation of this Guide

CPA Canada expresses its appreciation to the Audit Reporting Implications of Canadian Auditing Standards Task Force. Without the valued and dedicated efforts of this Task Force, this *Guide* would not have been possible.

## What's Changed in the 4<sup>th</sup> Edition of the Guide?

- A new chapter, Chapter 13: Key Audit Matters (KAM), has been added to the guide to assist the auditor when CAS 701, *Communicating Key Audit Matters in the Independent Auditor's Report* applies.
  - The Q&As summarize how KAM are to be communicated in the auditor's report and the reporting implications on KAM when the auditor is found to be in different reporting situations.
- New Q&As have been added to the following chapters:
  - Chapter 2: Addressing and Dating of the Report – Q&A 1 – Who is the appropriate addressee of the report?
  - Chapter 12: Group Audits – Q&A 4 – If the auditor is both the group auditor and the component auditor for all components in the group, is the group auditor responsibility paragraph included?
  - Chapter 14: Other Information – Q&A 8 – What are the reporting implications when the opinion is qualified due to a scope limitation?
- A new Illustration has been added to Chapter 14: Other information – Illustration 4 – A Not-for-Profit entity other than a listed entity, with a qualified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and there is a scope limitation related to the completeness of revenue.

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## **Sample Auditor's Report: Reporting Implications of the Canadian Auditing Standards (CASs)**

Except for the Opinion and Basis for Opinion sections, the CASs do not establish requirements for ordering the elements of the auditor's report. However, the typical ordering would give prominence to matters of most importance. For example, the elements, if applicable, may be ordered as follows:

- Opinion (Required to be first)
- Basis for Opinion (Required to be second)
- Material Uncertainty Related to Going Concern
- Key Audit Matters
- Emphasis of Matter
- Other Matter
- Other Information
- Responsibilities of Management and Those Charged with Governance for the Financial Statements
- Auditor's Responsibilities for the Audit of the Financial Statements
- Report on Other Legal and Regulatory Requirements

This *Guide* provides Questions and Answers on relevant reporting questions and includes Illustrative Reports or excerpts of reports.

Section	Sample Auditor's Report	Chapter Reference	Possible Modifications
	INDEPENDENT AUDITOR'S REPORT [Appropriate Addressee]	Chapter 2 Q&A 1- See paragraph 22 of CAS 700	
Audit of the Financial Statements	<ul style="list-style-type: none"> <li>Separate section when the auditor is also reporting on legal and regulatory matters within the auditor's report</li> </ul>	None - See paragraph 45 of CAS 700	<p><b>(1)</b> This title is only included if the auditor reports on other legal and regulatory requirements in the auditor's report in addition to their opinion on the financial statements.</p> <hr/> <p><b>(2)</b> If the financial statements are consolidated, the report would be modified to identify that the financial statements are prepared on a consolidated basis. This illustrative report has indicated that the financial statements are prepared on a <b>consolidated</b> basis for each instance of the words "financial statements". Different approaches may be applied by the auditor. Similar modifications of the report may be applicable to identify that the financial statements have been prepared on a combined or carve-out basis.</p>

Section	Sample Auditor's Report	Chapter Reference	Possible Modifications
Opinion [Qualified / Adverse Opinion]	<ul style="list-style-type: none"> <li>Description of the financial statements subject to audit.</li> <li>Opinion on those financial statements.</li> </ul>		
	<p><i>Opinion</i></p> <p>We have audited the <b>consolidated (2) financial statements (3)</b> of ABC Company and its subsidiaries (the Group <b>(11)</b>), which comprise the <b>consolidated (2)</b> statements of financial position as at December 31, 20X1 and 20X0 <b>(4)</b>, and the <b>consolidated (2)</b> statements of comprehensive income, <b>consolidated (2)</b> statements of changes in equity and <b>consolidated (2)</b> statements of cash flows for the years <b>(4)</b> then ended, and notes to the <b>consolidated (2)</b> financial statements, including a summary of significant accounting policies.</p> <p>In our opinion, the accompanying <b>consolidated (2) financial statements (3)</b> <i>present fairly (5)</i>, in all material respects, the <b>consolidated (2) financial position (6)</b> of the Group as at December 31, 20X1 <i>and 20X0 (4)</i>, and its <b>consolidated (2) financial performance (6)</b> and its <b>consolidated (2) cash flows (6)</b> for the years <b>(4)</b> then ended in accordance with <i>International Financial Reporting Standards (IFRSs) (6)</i>.</p>	<p>Chapter 4, Section B, <i>Modified Opinions</i></p> <p>Chapter 5, <i>Audits of Historical Financial Information Other Than Financial Statements</i></p> <p>Chapter 12, <i>Group Audits</i></p> <p>Chapter 4, Section A, <i>Comparative Information</i></p> <p>Chapter 1, Q&amp;A 1 in Section D, <i>Fair Presentation or Compliance Frameworks</i></p> <p>Chapter 1, Q&amp;A 1 in Section A, <i>Describing Financial Reporting Frameworks</i></p>	<p>If the auditor modifies their opinion, this section and the Basis for Opinion section are to be modified accordingly.</p> <p><b>(3)</b> If the audit of historical financial information is an audit of a complete set of financial statements or an audit of other historical financial information, the appropriate name of the information is included throughout the report (e.g., <i>financial statements or financial information</i>).</p> <p><b>(11)</b> An additional auditor's responsibility is included if the audit is a group audit under CAS 600.</p> <p><b>(4)</b> If the opinion is on the current period (corresponding figures reporting approach) or on all periods presented (comparative financial statements reporting approach), the opinion and basis of the opinion refers to one year or two years).</p> <p><b>(5)</b> Terminology within the opinion paragraph and management and auditor's responsibilities are modified depending on whether the financial reporting framework is a fair presentation or compliance financial reporting framework.</p> <p><b>(6)</b> Describe the applicable financial reporting framework and what it is designed to present (e.g., ASPE – results of its operations, IFRS – financial performance).</p>

Section	Sample Auditor's Report	Chapter Reference	Possible Modifications
Basis for [Qualified / Adverse] Opinion	<ul style="list-style-type: none"> <li>Description of the basis for our audit opinion which includes:               <ul style="list-style-type: none"> <li>an explicit statement about the auditor's independence in accordance with relevant ethical requirements and the auditor's fulfillment of other ethical responsibilities.</li> <li>for qualified / adverse opinion the reason for such an opinion.</li> </ul> </li> </ul>		
	<p><i>Basis for Opinion</i></p> <p>We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the <i>Auditor's Responsibilities for the Audit of the <b>Consolidated (2) Financial Statements (3)</b></i> section of our report. <i>We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the <b>consolidated (2) financial statements (3) in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements (7)</b>. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.</i></p>	Chapter 10, <i>Relevant Ethical Requirements</i>	<b>(7)</b> Wording may differ if the auditor is required to comply with ethical requirements of other jurisdictions.
		Chapter 12, <i>Group Audits</i> , if applicable	Refer to (2)
		Chapter 5, <i>Audits of Historical Financial Information Other Than Financial Statements</i>	Refer to (3)
Material Uncertainty Related to Going Concern (if applicable)	<ul style="list-style-type: none"> <li>Separate section that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to the users' understanding of the financial statements.</li> </ul>		
	<p><i>Material Uncertainty Related to Going Concern</i></p> <p>[Insert]</p>	Chapter 4, Section B, <i>Modified Opinions</i>	NA
		Chapter 11, <i>Going Concern</i>	Included when a material uncertainty exists

Section	Sample Auditor's Report	Chapter Reference	Possible Modifications
Emphasis of Matter (if applicable)	<ul style="list-style-type: none"> <li>Separate section that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to the users' understanding of the financial statements.</li> </ul> <p><i>Emphasis of Matter</i> [Insert]</p>	<p>Chapter 3, <i>Emphasis of Matter and Other Matter Paragraphs in the Report</i></p> <p>Chapter 4, <i>Comparative Information, Modified Opinions and Implications of Predecessor Auditors</i></p>	Included when required or when considered necessary by the auditor.
Key Audit Matters (if applicable)	<ul style="list-style-type: none"> <li>Separate section for matters communicated with those charged with governance that require significant auditor attention in performing the audit. This section is added to the report if the auditor is required by law or regulation or has decided to communicate key audit matters.</li> </ul> <p><i>Key Audit Matters</i> [Insert]</p>	Chapter 13, <i>Key Audit Matters</i> (to come in future version)	Included when required or when the auditor has decided to include.
Other Matter (if applicable)	<ul style="list-style-type: none"> <li>Separate section that refers to a matter other than one presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to the users' understanding of the audit, the auditor's responsibilities or the auditor's report.</li> </ul> <p><i>Other Matter</i> [Insert]</p>	<p>Chapter 3, <i>Emphasis of Matter and Other Matter Paragraphs in the Report</i></p> <p>Chapter 4, <i>Comparative Information, Modified Opinions and Implications of Predecessor Auditors</i></p>	Included when required or when the auditor has decided to include.



Section	Sample Auditor's Report	Chapter Reference	Possible Modifications
<i>Other Information (if applicable)</i>	<ul style="list-style-type: none"> <li>Separate section applicable when an entity prepares an "annual report" that meets the definition in CAS 720 to explain management and the auditor's responsibilities for the other information contained in that annual report and the auditor's conclusion from reading and considering the other information.</li> </ul>		
	<p><i>Other Information</i></p> <p>[Insert]</p>	Chapter 14, <i>Other Information</i>	<p>This section is required to be tailored based on:</p> <ul style="list-style-type: none"> <li>when the document(s) are obtained (i.e., prior to, or after, the auditor's report date)</li> <li>whether the entity is a listed entity or a non-listed entity.</li> </ul>
<i>Responsibilities of Management and Those Charged with Governance for the Financial Statements</i>	<ul style="list-style-type: none"> <li>Description of management's responsibilities for: <ul style="list-style-type: none"> <li>the financial statements.</li> <li>assessing the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate.</li> </ul> </li> <li>Description of the responsibilities of those charged with governance.</li> </ul>		
	<p><i>Responsibilities of Management and Those Charged with Governance (8) for the Consolidated (2) Financial Statements (3)</i></p>	Chapter 9, <i>Listed Entities</i>	<b>(8)</b> If those charged with governance of the entity are the same as management, this title and the description of responsibilities within this section are modified accordingly.
	<p>Management is responsible for the preparation <i>and fair presentation (5)</i> of the <b>consolidated (2) financial statements (3)</b> in accordance with <i>IFRSs (6)</i>, and for such internal control as management determines is necessary to enable the preparation of <b>consolidated (2) financial statements (3)</b> that are free from material misstatement, whether due to fraud or error.</p>	<p>None - See Paragraph 6(b) of CAS 210</p> <p>Chapter 1, Section C, <i>Special Purpose Financial Reporting Frameworks</i></p>	<b>(5)</b> If management has a choice of financial reporting frameworks, additional wording is required

Section	Sample Auditor's Report	Chapter Reference	Possible Modifications
	In preparing the <b>consolidated (2) financial statements (3)</b> , management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so. <b>(9) (10)</b>	Chapter 11, <i>Going Concern</i>	<b>(9)</b> If the going concern basis of accounting is not relevant to the financial reporting framework, the description related to management's responsibility related to going concern matter will need to be modified.  <b>(10)</b> Furthermore, if the going concern basis of accounting is relevant to the financial reporting framework, this section may need to be modified to explain when the use of the going concern basis of accounting is appropriate.
	Those charged with governance are responsible for overseeing the Group's financial reporting process <b>(8)</b> .	Chapter 9, <i>Listed Entities</i>	Refer to (8)

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

- Description of the auditor's responsibilities for the audit which include the auditor's responsibilities:
  - to identify and assess the risks of material misstatements 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
  - to obtain an understanding of internal control relevant to the audit in order to design appropriate audit procedures
  - to evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
  - to conclude on the appropriateness of management's use of the going concern basis of accounting
  - to evaluate the overall presentation, structure and content of the financial statements
  - to obtain sufficient appropriate audit evidence regarding the financial information or business activities in an audit of group financial statements - for group audits
  - to provide a statement to those charged with governance that the auditor has complied with relevant ethical requirements regarding independence - for listed entities
  - to communicate key audit matters - when applicable

Section	Sample Auditor's Report	Chapter Reference	Possible Modifications
	<p data-bbox="410 373 800 468"><i>Auditor's Responsibilities for the Audit of the <b>Consolidated (2) Financial Statements (3)</b></i></p> <p data-bbox="410 485 816 1428">Our objectives are to obtain reasonable assurance about whether the <b>consolidated (2) financial statements (3)</b> 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 <b>consolidated (2) financial statements (3)</b>. 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:</p>		

Section	Sample Auditor's Report	Chapter Reference	Possible Modifications
	<ul style="list-style-type: none"> <li>Identify and assess the risks of material misstatement of the <b>consolidated (2) financial statements (3)</b>, 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.</li> </ul>		
	<ul style="list-style-type: none"> <li>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 Group's <b>(11)</b> internal control.</li> </ul>		
	<ul style="list-style-type: none"> <li>Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.</li> </ul>		

Section	Sample Auditor's Report	Chapter Reference	Possible Modifications
	<ul style="list-style-type: none"> <li>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 Group'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 <b>consolidated (2) financial statements (3)</b> 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 Group to cease to continue as a going concern. <b>(9) (10)</b></li> </ul>	Chapter 11, <i>Going Concern</i>	
	<ul style="list-style-type: none"> <li>Evaluate the overall presentation, structure and content of the <b>consolidated (2) financial statements (3)</b>, including the disclosures, and whether the <b>consolidated (2) financial statements (3)</b> represent the underlying transactions and events in a manner that achieves fair presentation <b>(5)</b>.</li> </ul>	Chapter 1, Q&A 1 in Section D, <i>Fair Presentation or Compliance Frameworks</i>	Refer to (5) This is deleted for compliance financial reporting frameworks.
	<ul style="list-style-type: none"> <li>Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the <b>consolidated (2) financial statements (3)</b>. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion. <b>(11)</b></li> </ul>	Chapter 12, <i>Group Audits</i>	<b>Refer to (2)</b> <b>(11)</b> An additional auditor's responsibility is included if the audit is a group audit under CAS 600.

Section	Sample Auditor's Report	Chapter Reference	Possible Modifications
	<p>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.</p>		
	<p>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.</p>	<p>Chapter 9, <i>Listed Entities</i></p>	<p>If the Entity is a listed entity, the auditor's responsibilities provides a statement to those charged with governance that the auditor has complied with relevant ethical requirements regarding independence. For non-listed entities, this paragraph should be removed.</p>
	<p>From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the <b>consolidated (2) financial statements (3)</b> of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.</p>	<p>Chapter 13, <i>Key Audit Matters</i> (to come in future version)</p>	<p>Specific auditor's responsibilities related to the communication of key audit matters are required if the auditor is required by law or regulation, or has decided to communicate key audit matters.</p>
<p><i>Report on Other Legal and Regulatory Requirements (if applicable)</i></p>	<ul style="list-style-type: none"> <li>• Separate section when the auditor is reporting on legal and regulatory matters within the auditor's report</li> </ul>		

Section	Sample Auditor's Report	Chapter Reference	Possible Modifications
	Report on Other Legal and Regulatory Requirements <b>(1)</b> [Insert]	None - See paragraph 45 of CAS 700	<b>Refer to (1)</b>
<i>Engagement Partner Name</i>	<ul style="list-style-type: none"> <li>Providing the engagement partner name - for listed entities</li> </ul>		
	The engagement partner on the audit resulting in this independent auditor's report is [name].	Chapter 9, <i>Listed Entities</i>	If the Entity is a listed entity, the report discloses the name of the engagement partner.
<i>Signature, place and date</i>	<ul style="list-style-type: none"> <li>The signature, place and date of the auditor's report:</li> </ul>		
	[Auditor's signature]		
	[Auditor's Address]		
	[Date]	Chapter 2, <i>Dating of the Report</i>	

# CHAPTER 1

## Financial Reporting Frameworks

This chapter includes the following Q&As:

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## A Describing Financial Reporting Frameworks

### 1 How should the report refer to the financial reporting framework when financial statements are prepared in accordance with one of the financial reporting frameworks of the *CPA Canada Handbook–Accounting* or the *CPA Canada Public Sector Accounting Handbook*?

#### Background

- 1.1 The auditor is required by paragraph 6 of CAS 210 to determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable.
- 1.2 The following general principles have been followed to promote consistency in the wording of the report:
  - a. The report would clearly describe the financial reporting framework applied by management in preparing the financial statements. Because the *CPA Canada Handbook–Accounting* includes different financial reporting frameworks, use of the term “Canadian generally accepted accounting principles” is not specific enough to help readers identify which financial reporting framework has been used.
  - b. The reports for different entities would describe the same financial reporting framework in the same way. For example, a report on the financial statements of a private enterprise that prepares its financial statements in accordance with International Financial Reporting Standards (IFRSs) should contain the same description of the financial reporting framework as a report on the financial statements of a publicly accountable enterprise that also prepares its financial statements in accordance with IFRSs.
  - c. The report would normally maintain consistency with how the entity describes the financial reporting framework in its financial statements. Certain parts of the *CPA Canada Handbook–Accounting* require that the basis of presentation be specifically stated in the financial statements.<sup>1</sup>
  - d. Paragraph 27 of CAS 700 requires the auditor’s opinion to identify the jurisdiction of origin.

<sup>1</sup> See, for example, paragraph 16 of IAS 1 *Presentation of Financial Statements*, in Part I and *General Standards of Financial Statement Presentation*, paragraph 1400.16 in Part II of the *CPA Canada Handbook–Accounting*.

### Financial statements prepared in accordance with IFRSs

- 1.3 In considering how to describe, in the report, financial statements prepared in accordance with IFRSs, it is noted that:
- a. IFRSs are a separately recognized financial reporting framework that is used in many countries around the globe;
  - b. IFRSs as issued by the International Accounting Standards Board (IASB) are incorporated into the *CPA Canada Handbook—Accounting* without modification;
  - c. Canadian entities that are reporting issuers are required by Canadian securities regulations to report compliance with “IFRSs”, defined as being International Financial Reporting Standards as issued by the International Accounting Standards Board. An auditor may describe the financial reporting framework in the report as either “International Financial Reporting Standards” or “International Financial Reporting Standards as issued by the International Accounting Standards Board” in complying with these securities regulations; and
  - d. Canadian entities that have reporting obligations in the securities markets in other jurisdictions are often required to report compliance with “International Financial Reporting Standards as issued by the International Accounting Standards Board.” This wording may be required to be reflected in the report.

In Canada, the use of the additional words “as issued by the International Accounting Standards Board” is redundant because, as stated above, IFRSs as issued by the IASB have been incorporated unchanged into the *CPA Canada Handbook—Accounting*. However, including these words in the description of the financial reporting framework is not incorrect or prohibited.

When other legislation or regulation requires the use of different wording to describe the financial reporting framework (for example, including the additional words noted above), the auditor would comply with that legislation or regulation. Paragraph 15 of CAS 700 requires the auditor to evaluate whether the description of the financial reporting framework is adequate.

### **Financial statements prepared in accordance with other financial reporting frameworks in the *CPA Canada Handbook–Accounting***

- 1.4 In considering how to describe, in the report, financial statements prepared in accordance with other financial reporting frameworks in the *CPA Canada Handbook–Accounting*, the principles in paragraph 1.2 of this Q&A have been considered. Accordingly, the description of other frameworks would be as follows:
- a. Accounting standards for private enterprises in Part II of the *CPA Canada Handbook–Accounting*, would be referred to as “Canadian accounting standards for private enterprises.”
  - b. Accounting standards for not-for-profit organizations in Part III of the *CPA Canada Handbook–Accounting* would be referred to as “Canadian accounting standards for not-for-profit organizations”.
  - c. Accounting standards for pension plans in Part IV of the *CPA Canada Handbook–Accounting* would be referred to as “Canadian accounting standards for pension plans.”

### **Financial statements prepared in accordance with accounting standards in the *CPA Canada Public Sector Accounting Handbook***

- 1.5 The financial reporting framework in a report on financial statements prepared in accordance with the accounting standards in the *CPA Canada Public Sector Accounting Handbook* would be described as “Canadian public sector accounting standards.”

## **2 How should the auditor describe in the opinion paragraph in the report the matters that the financial statements are designed to present for any one of the financial reporting frameworks of the *CPA Canada Handbook–Accounting* and the *CPA Canada Public Sector Accounting Handbook*?**

### **Background**

- 2.1 In the case of financial statements prepared in accordance with a fair presentation framework, paragraph A27 of CAS 700 indicates that the auditor’s opinion states that the financial statements present fairly, in all material respects, the matters that the financial statements are designed to present, (for example, in the case of many general purpose frameworks), the financial position of the entity as at the end of the period and the entity’s financial performance and cash flows for the period then ended.

- 2.2 Because there are various different financial reporting frameworks in Canadian GAAP, the auditor needs to consider the requirements of the respective financial reporting framework when stating the auditor's opinion in the report under CAS 700.

### International Financial Reporting Standards (Part I of the *CPA Canada Handbook—Accounting*)

- 2.3 Paragraph 15 of IAS 1, *Presentation of Financial Statements* states that financial statements shall present fairly the financial position, **financial performance** and cash flows of an entity.
- 2.4 Therefore, the auditor's opinion would be worded as follows, when the report refers to the current period only as discussed in [Chapter 4 Section A, Q&A 1](#):

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of [the Company] as at [Date], and its **financial performance** and its cash flows for the [period] then ended in accordance with International Financial Reporting Standards (IFRSs).

### Accounting standards for private enterprises (Part II of the *CPA Canada Handbook—Accounting*)

- 2.5 *General Standards of Financial Statement Presentation*, paragraph 1400.03 in Part II of the *CPA Canada Handbook—Accounting*, states that financial statements shall present fairly in accordance with generally accepted accounting principles the financial position, **results of operations** and cash flows of an entity.
- 2.6 Therefore, the auditor's opinion would be worded as follows, when the report refers to the current period only as discussed in [Chapter 4 Section A, Q&A 1](#):

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of [the Company] as at [Date], and its **results of operations** and its cash flows for the [period] then ended in accordance with Canadian accounting standards for private enterprises.

### Accounting standards for not-for-profit organizations (Part III of the CPA Canada Handbook–Accounting)

- 2.7 *General Standards of Financial Statement Presentation for Not-For-Profit Organizations*, paragraph 1401.03 in Part III of the *CPA Canada Handbook–Accounting*, states that financial statements shall present fairly in accordance with generally accepted accounting principles the financial position, **results of operations** and cash flows of an entity.
- 2.8 Therefore, the auditor’s opinion would be worded as follows, when the report refers to the current period only as discussed in [Chapter 4 Section A, Q&A 1](#):

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of [the Organization] as at [Date], and its **results of operations** and its cash flows for the [period] then ended in accordance with Canadian accounting standards for not-for-profit organizations.

### Accounting standards for pension plans (Part IV of the CPA Canada Handbook–Accounting)

- 2.9 *Pension Plans*, paragraph 4600.10 in Part IV of the *CPA Canada Handbook–Accounting*, states that financial statements shall consist of:
- a statement of financial position;
  - a statement of **changes in net assets available for benefits**; and
  - a statement of **changes in pension obligations**.
- 2.10 Therefore, the auditor’s opinion would be worded as follows, when the report refers to the current period only as discussed in [Chapter 4 Section A, Q&A 1](#):

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of [the Pension Plan] as at [Date], and its **changes in net assets available for benefits and its changes in pension obligations** for the [period] then ended in accordance with Canadian accounting standards for pension plans.

**Public sector accounting standards**  
**(CPA Canada Public Sector Accounting Handbook)**

- 2.11 *Financial Statement Presentation*, paragraph PS 1200.012 in the *CPA Canada Public Sector Accounting (PSA) Handbook*, states that financial statements should present any information required for the fair presentation of a government's financial position, **results of operations, change in net debt, and cash flow**.
- 2.12 Therefore, the auditor's opinion would be worded as follows, when the report refers to the current period only as discussed in [Chapter 4 Section A, Q&A 1](#):

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of [the government] as at [Date], and its **results of operations, its changes in its net debt, and its cash flows** for the [period] then ended in accordance with Canadian public sector accounting standards.

- 2.13 The Public Sector Accounting Board released new accounting standards in June 2011 that replace Section PS 1200 with Section PS 1201, *Financial Statement Presentation*, effective for government organizations for fiscal years beginning on or after April 1, 2012 and for governments for fiscal years beginning on or after April 1, 2019. Earlier adoption is permitted. Paragraph PS 1201.012 states that financial statements should present any information required for the fair presentation of a government's financial position, **results of operations, remeasurement gains and losses, change in net debt and cash flow**.
- 2.14 Therefore, when Section PS 1201 is adopted, the auditor's opinion would be worded as follows, when the report refers to the current period only as discussed in [Chapter 4 Section A, Q&A 1](#):

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of [the government] as at [Date], and its **results of operations, its remeasurement gains and losses, its changes in net debt, and its cash flows** for the [period] then ended in accordance with Canadian public sector accounting standards.

- 2.15 The Introduction to Public Sector Accounting Standards in the *CPA Canada PSA Handbook* states that for purposes of their financial reporting, government not-for-profit organizations should adhere to the standards for not-for-profit organizations in the *CPA Canada PSA Handbook* or the standards in the *CPA Canada PSA Handbook* without Sections PS 4200 to PS 4270. The auditor's opinion on financial statements of a government not-for-profit organization that adheres to the standards in the *CPA Canada PSA Handbook* without Sections PS 4200 to PS 4270 would be worded as described in paragraph 2.12 of this Q&A.
- 2.16 PS 4200, *Financial Statement Presentation by Not-for-Profit Organizations*, establishes presentation and disclosure standards for financial statements for not-for-profit organizations adhering to the standards for not-for-profit organizations. Paragraph PS 4200.05 states that the financial statements for a not-for-profit organization are to provide the information necessary to meet the requirements of that Section and other Sections in a manner that results in the fair presentation in accordance with generally accepted accounting principles of the organization's financial position, **results of operations and cash flows**. A footnote indicates a statement of remeasurement gains and losses may be required.
- 2.17 For government not-for-profit organizations that adhere to the standards for not-for-profit organizations in the *CPA Canada PSA Handbook*, the auditor's opinion would be worded as follows, when the report refers to the current period only as discussed in [Chapter 4 Section A, Q&A 1](#):

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of [the government not-for-profit organization] as at [Date], and its **results of operations and its cash flows** for the [period] then ended in accordance with Canadian public sector accounting standards.

The statement of remeasurement gains and losses would not be required and therefore would not be referenced in the report until adoption of Section PS 1201 by the government not-for-profit organization.



## B General Purpose Financial Reporting Frameworks

### 1 What is the form and content of the report on financial statements that are prepared using various general purpose financial reporting frameworks?

#### Background

- 1.1 This Section addresses the form of the report with respect to the following circumstances where financial statements are prepared in accordance with a general purpose financial reporting framework:
- a. financial statements prepared in accordance with a general purpose financial reporting framework other than a financial reporting framework in the *CPA Canada Handbook—Accounting* or the *CPA Canada Public Sector Accounting Handbook*;
  - b. financial statements prepared in accordance with a financial reporting framework in the *CPA Canada Handbook—Accounting* that is not designed for that type of entity;
  - c. financial statements for a specific use prepared in accordance with a general purpose financial reporting framework;
  - d. consolidated and non-consolidated financial statements prepared in accordance with a financial reporting framework that permits both such statements to be prepared for general purposes;
  - e. two sets of financial statements prepared in accordance with different accounting policy choices within the same financial reporting framework (including consolidated and non-consolidated financial statements prepared in accordance with a financial reporting framework that does not expressly permit both such statements to be prepared for general purposes).
- 1.2 In the discussion of each circumstance in this chapter, it has been assumed that the auditor has determined the applied general purpose financial reporting framework to be acceptable in accordance with paragraph 6(a) of CAS 210 unless otherwise indicated.
- 1.3 Reference is also made in this chapter to the following circumstances:
- a. the auditor may include an Other Matter paragraph in the report, referring to the fact that another set of financial statements has been prepared by the same entity in accordance with another general purpose financial reporting framework and that the auditor has issued an opinion on those financial statements (see paragraph A13 of CAS 706); and

- b. the financial statements are prepared for a specific use using a general purpose financial reporting framework, since the report is intended for specific users, the auditor may consider it necessary in the circumstances to include an Other Matter paragraph stating that the report is intended solely for the intended users, and should not be distributed to or used by other parties (see paragraph A14 of CAS 706).
- 1.4 In the circumstances where the auditor is requested to report on financial statements prepared in accordance with a financial reporting framework other than the framework required by the entity's incorporating or other governing legislation, the auditor may discuss the matter with management and, where appropriate, those charged with governance. For example, the auditor may indicate that:
- a. the financial statements do not comply with and will not satisfy the entity's incorporating or other governing legislation;
  - b. those charged with governance should consider the financial and other implications of such non-compliance and may wish to obtain legal advice; and
  - c. the auditor accepts no responsibility for any implications of potential non-compliance with the incorporating or other governing legislation.

**Reporting on financial statements prepared in accordance with a general purpose financial reporting framework other than a financial reporting framework in the *CPA Canada Handbook—Accounting* or the *CPA Canada Public Sector Accounting Handbook***

- 1.5 In Canada, the accounting standards promulgated by the Accounting Standards Board and the Public Sector Accounting Board are generally accepted and often are prescribed in incorporating or other governing legislation as the applicable financial reporting framework. They are considered to be general purpose financial reporting frameworks for the type of entity for which the framework was designed.
- 1.6 A financial reporting framework other than the financial reporting frameworks in the *CPA Canada Handbook—Accounting* or the *CPA Canada Public Sector Accounting Handbook* may be acceptable in certain circumstances. Examples where this may be acceptable would be for general purpose financial statements would be when legislation or regulation permits an entity to report in accordance with U.S. GAAP. In these circumstances, the form of the report would be in accordance with CAS 700.

- 1.7 It is possible that such an entity may prepare two sets of general purpose financial statements, one prepared in accordance with a general purpose financial reporting framework and one set prepared in accordance with a different general purpose financial reporting framework. In this case, the auditor may consider adding the Other Matter paragraph referencing the other set of financial statements prepared by the same entity, referred to in paragraph 1.3(a) of this Q&A.
- 1.8 In determining whether the applicable general purpose financial reporting framework is acceptable for the engagement under CAS 210 the auditor may determine that the general purpose financial statements are prepared for a specific use<sup>2</sup> (refer to paragraphs 1.11–1.14 of this Q&A regarding reporting on financial statements prepared for a specific use). In addition, the auditor may consider adding an Other Matter paragraph to the report stating that the report is intended solely for the intended users, and should not be distributed to or used by other parties, as discussed in paragraph 1.3(b) of this Q&A.

**Reporting on financial statements prepared in accordance with a financial reporting framework in the *CPA Canada Handbook–Accounting* that is *not* designed for that type of entity**

- 1.9 As discussed in paragraph 1.5 of this Q&A, the accounting standards promulgated by the Accounting Standards Board and the Public Sector Accounting Board are considered to be general purpose financial reporting frameworks for the type of entity for which the framework was designed. The Preface to the *CPA Canada Handbook–Accounting* provides guidance on determining which financial reporting framework applies to a reporting entity. All types of entities may apply International Financial Reporting Standards. However, the financial reporting frameworks in Parts II to IV of the *CPA Canada Handbook–Accounting* may only be applied by entities that meet the definitions of entities for which these financial reporting frameworks have been designed.
- 1.10 In some circumstances, an entity may request an auditor to report on financial statements prepared in accordance with a general purpose financial reporting framework that is not designed for that type of entity. For example, a publicly accountable enterprise may prepare financial statements in accordance with Canadian accounting standards for private enterprises. In determining whether the applicable financial reporting framework is acceptable for the engagement under CAS 210, the auditor may identify the purpose of the financial statements, the intended users and the steps taken by management to determine that the

<sup>2</sup> Financial statements prepared for a specific use are distinguished from special purpose financial statements that are financial statements prepared in accordance with a special purpose financial reporting framework.

applicable financial reporting framework is acceptable. If the financial statements prepared in accordance with such a financial reporting framework are intended as the entity's general purpose financial statements, the auditor shall<sup>3</sup> not accept an engagement to report on such financial statements because such a financial reporting framework is not an acceptable financial reporting framework for general purpose financial statements for that type of entity. However, if such financial statements are prepared for a specific use (for example, to meet the needs of a particular stakeholder), such a financial reporting framework may be an acceptable special purpose financial reporting framework. In this case, the auditor reports in accordance with CAS 800. If management has a choice of financial reporting frameworks in the preparation of special purpose financial statements, a reference within the explanation of management's responsibility for determining that the applicable financial reporting framework is acceptable.

### **Reporting on financial statements prepared for a specific use in accordance with a general purpose financial reporting framework designed for that type of entity**

- 1.11 An entity may prepare financial statements for a specific use in accordance with a general purpose financial reporting framework designed for that type of entity. For example, a private enterprise may prepare non-consolidated financial statements in accordance with Canadian accounting standards for private enterprises (as permitted by *Subsidiaries*, paragraph 1591.24 in Part II of the *CPA Canada Handbook—Accounting*) to meet the expressed needs of a bank and the income tax authorities.
- 1.12 When financial statements are prepared for a specific use in accordance with a general purpose framework, the financial statements do not meet the definition of special purpose financial statements in CAS 800. CAS 800 defines a special purpose framework as a financial reporting framework designed to meet the financial information needs of specific users. Special purpose financial statements are financial statements prepared in accordance with a special purpose financial reporting framework.
- 1.13 Although the financial statements are prepared for a specific use, the auditor reports on such financial statements in accordance with CAS 700 as the financial reporting framework is a general purpose framework. The auditor may consider adding the Other Matter paragraph stating that the report is intended solely for the intended users, and should not be distributed to or used by other parties referred to in paragraph 1.3(b) of this Q&A.

<sup>3</sup> See paragraph 8(a) of CAS 210.

- 1.14 See [Illustrative Report 4](#) in this chapter for an example of a report on financial statements prepared for a specific use in accordance with a general purpose financial reporting framework.

**Reporting on consolidated and non-consolidated financial statements in accordance with a general purpose financial reporting framework that permits both such statements to be prepared for general purposes**

- 1.15 Some general purpose financial reporting frameworks permit an entity to prepare both consolidated financial statements and non-consolidated financial statements and indicate that they have been prepared in accordance with that general purpose financial reporting framework. See, for example, IAS 27, *Separate Financial Statements* in Part I of the *CPA Canada Handbook—Accounting*.
- 1.16 In this circumstance, the auditor reports on each set of financial statements in accordance with CAS 700. The financial statements are labelled in the report in the same manner in which the entity has labelled the financial statements in accordance with the financial reporting framework.
- 1.17 The auditor may consider adding the Other Matter paragraph referencing the other set of financial statements prepared by the same entity referred to in paragraph 1.3(a) of this Q&A to the report on each set of financial statements, if this is practicable. The following is example wording of an Other Matter paragraph that may be included in the report on consolidated (separate) financial statements when an entity also prepares separate (consolidated) financial statements under IAS 27, *Separate Financial Statements*:

*Other Matter*

The Entity has prepared a [(non-consolidated / separate) / (consolidated)] set of financial statements for the year ended December 31, 20X1 in accordance with International Financial Reporting Standards on which we issued an auditor's report to the shareholders of the Entity dated March 31, 20X2.

**Reporting on two sets of financial statements prepared in accordance with different accounting policy choices within the same financial reporting framework (including consolidated and non-consolidated financial statements)**

- 1.18 General purpose financial reporting frameworks generally contemplate an entity preparing only one set of general purpose financial statements in accordance with that financial reporting framework. Therefore, an entity would select only one set of accounting policies in any particular period for purposes of preparing such general purpose financial statements.
- 1.19 In some circumstances, an entity may prepare additional sets of financial statements using alternative accounting policies that are also in accordance with a particular general purpose financial reporting framework. For example, the entity may prepare:
- a. one set of financial statements making an accounting policy choice to prepare financial statements on a consolidated basis as permitted by Subsidiaries, paragraph 1591.24(a) in Part II of the *CPA Canada Handbook—Accounting*; and one set of financial statements making an accounting policy choice to prepare financial statements on a non-consolidated basis as permitted by paragraph 1591.24(b); or
  - b. one set of financial statements making an accounting policy choice to account for income taxes using the taxes payable method, as permitted by Income Taxes, paragraph 3465.03(a) in Part II of the *CPA Canada Handbook—Accounting*; and another set of financial statements making an accounting policy choice to account for income taxes using the future income taxes method, as permitted by paragraph 3465.03(b).
- 1.20 In accepting an engagement to report on two sets of financial statements prepared in accordance with different accounting policy choices within the same general purpose financial reporting framework, the auditor typically requests the entity to designate one set of financial statements as being its general purpose financial statements for a broad range of users and the other set as being for a specific use.
- a. Generally, the general purpose set of financial statements is the set of financial statements that provides the most reliable and relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. The auditor reports on these financial statements in accordance with CAS 700.

- b. The auditor reports on additional sets of financial statements prepared in accordance with the same financial reporting framework in accordance with paragraphs 1.11-1.14 of this Q&A on the basis that the financial statements are prepared for a specific use in accordance with a general purpose financial reporting framework. The auditor may consider adding either or both of the Other Matter paragraphs referred to in paragraph 1.3 of this Q&A.

## **2 What factors does the auditor consider in determining whether a general purpose framework (other than an AcSB or PSAB framework) is acceptable?**

- 2.1 Paragraph 6(a) of CAS 210 requires the auditor to determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable.
- 2.2 Paragraph A4 of CAS 210 indicates that factors that are relevant to the auditor's determination of the acceptability of the financial reporting framework to be applied in the preparation of the financial statements include:
  - a. The nature of the entity (for example, whether it is a business enterprise, a public sector entity or a not-for-profit organization);
  - b. The purpose of the financial statements (for example, whether they are prepared to meet the common financial information needs of a wide range of users or the financial information needs of specific users);
  - c. The nature of the financial statements (for example, whether the financial statements are a complete set of financial statements or a single financial statement); and
  - d. Whether law or regulation prescribes the applicable financial reporting framework.
- 2.3 Accounting standards promulgated by the Accounting Standards Board and the Public Sector Accounting Board (AcSB and PSAB frameworks, respectively) are generally accepted and are relevant in determining the acceptability of the applicable financial reporting framework even when incorporating or other governing legislation does not specify that generally accepted accounting principles be used when preparing general purpose financial statements.<sup>4</sup> Some legislation and regulation also permits certain reporting issuers to use

<sup>4</sup> See paragraph CA8a of CAS 210.

International Financial Reporting Standards, promulgated by the International Accounting Standards Board, or United States generally accepted accounting principles, promulgated by the US Financial Accounting Standards Board.<sup>5</sup>

- 2.4 Paragraph A9 of CAS 210 states that law or regulation may prescribe the financial reporting framework to be used in the preparation of general purpose financial statements for certain types of entities. In the absence of indications to the contrary, such a financial reporting framework is presumed to be acceptable for general purpose financial statements prepared by such entities. Appendix 2 of CAS 210 identifies the attributes normally exhibited by acceptable general purpose frameworks – relevance, completeness, reliability, neutrality and understandability – that result in information provided in financial statements that is useful to the intended users.
- 2.5 Where law or regulation prescribes a general purpose framework other than AcSB or PSAB frameworks, the application guidance in CAS 210 and the following factors may be considered in determining whether there are indications to the contrary:
- a. The process followed to develop the financial reporting framework, including the opportunity for input from stakeholders and deliberation of their views so that the financial reporting framework exhibits the attributes of an acceptable general purpose framework – For example, when a regulator issues a proposed financial reporting framework for public comment and the final financial reporting framework reflects deliberation of comments received, such a financial reporting framework is more likely to be acceptable than a financial reporting framework developed by the regulator in isolation that may reflect the regulator’s individual preferences. As a result, it will not exhibit the attributes of relevance, completeness or neutrality.
  - b. The reasons for development of the financial reporting framework – For example, where law or regulation addresses the circumstances of a particular type of entity, such a financial reporting framework may be acceptable if the applicable AcSB and PSAB frameworks do not provide specific guidance on the accounting for that type of entity. However, if the Accounting Standards Board and the Public Sector Accounting Board have already considered a particular issue and reached a conclusion on the appropriate recognition, measurement and disclosure, a financial reporting framework that conflicts with that conclusion is an indicator that the financial reporting framework may not exhibit attributes of an acceptable general purpose framework such as completeness and neutrality.

5 See paragraph CA8b of CAS 210.



- c. The body prescribing the financial reporting framework – For example, some governments and government organizations have legislative authority with respect to the application of a financial reporting framework in the preparation of general purpose financial statements. There is the potential in this situation that the financial reporting framework applied may reflect the government or government organization’s individual preferences and information needs, and may not be neutral and free from bias.
- d. Whether the resulting financial statements prepared in accordance with the financial reporting framework will be misleading.

### **3 What are the reporting implications if a general purpose framework is unacceptable?**

- 3.1 Paragraph 8 of CAS 210 states that unless required by law or regulation to do so, the auditor shall not accept a proposed audit engagement if the auditor has determined that the financial reporting framework to be applied in the preparation of the financial statements is unacceptable, except as provided in paragraph 19.
- 3.2 Paragraph 19 of CAS 210 requires that if the auditor has determined that the financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation, the auditor shall accept the audit engagement only if the following conditions are present:
  - a. Management agrees to provide additional disclosures in the financial statements required to avoid the financial statements being misleading. (Whether, and if so, what additional disclosures in the financial statements can avoid financial statements being misleading is a matter of professional judgment for the auditor.)
  - b. It is recognized in the terms of the audit engagement that:
    - i. The report on the financial statements will incorporate an Emphasis of Matter paragraph, drawing users’ attention to the additional disclosures, in accordance with CAS 706; and
    - ii. Unless the auditor is required by law or regulation to express the auditor’s opinion on the financial statements by using the phrases “present fairly, in all material respects,” or “give a true and fair view” in accordance with the applicable financial reporting framework, the auditor’s opinion on the financial statements will not include such phrases.

- 3.3 The following is an example of an Emphasis of Matter paragraph discussed in paragraph 3.2(b)(i) above:

*Emphasis of Matter – Basis of Accounting*

We draw attention to Note X to the financial statements, which describes the basis of accounting and the significant differences between such basis of accounting and [For example, AcSB or PSAB framework, as appropriate to the type of entity]. Our opinion is not modified in respect of this matter.

- 3.4 As indicated in paragraph 3.2(b)(ii) above, CAS 210 prohibits the use of the phrase “presents fairly, in all material respects” or “give a true and fair view” in the auditor’s opinion unless required by law or regulation to do so. Accordingly, unless required by law or regulation to refer to “presents fairly, in all material respects” or “give a true and fair view”, the auditor’s opinion would be in the form of an auditor’s opinion on financial statements prepared in accordance with a compliance financial reporting framework as required by paragraph 26 of CAS 700 (i.e., that the financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework]).
- 3.5 Paragraph A11 of CAS 700 states that a description that the financial statements are prepared in accordance with a particular applicable financial reporting framework is appropriate only if the financial statements comply with all the requirements of that framework that are effective during the period covered by the financial statements.
- 3.6 The auditor may also need to consider the wording of other sections of the report, depending on the circumstances. For example, the auditor may conclude that the financial reporting framework is not a fair presentation framework and, therefore, the report should not include the additional references included in the management responsibility and auditor’s responsibility sections of the report required by paragraphs 36 and 39(b)(v) of CAS 700 when the financial reporting framework is a fair presentation framework (i.e., the explanation of management’s responsibility for the financial statements as being for “the preparation and fair presentation of these financial statements” or “the preparation of financial statements that give a true and fair view, ” and the description of the audit in the report referring to “evaluate the overall presentation, structure and content of the financial statements, including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation”).

- 3.7 When law or regulation requires the auditor to express an opinion whether the financial statements are “presented fairly, in all material respects”, or other similar phrases, the auditor would refer to the relevant law or regulation in developing the wording of the auditor’s opinion in the report and would use the wording required by law or regulation.
- 3.8 Paragraph A37 of CAS 210 indicates that in a case where law or regulation prescribes that the wording of the auditor’s opinion use the phrases “present fairly, in all material respects” or “give a true and fair view” and the auditor believes that the applicable financial reporting framework prescribed by law or regulation would otherwise have been unacceptable, the terms of the prescribed wording of the auditor’s report in law or regulation are significantly different from the CASs. Paragraph A37 of CAS 210 refers the auditor to paragraph 21 of CAS 210, which requires the auditor to evaluate:
- a. Whether users might misunderstand the assurance obtained from the audit of the financial statements and, if so,
  - b. Whether additional explanation in the report can mitigate possible misunderstanding.
- 3.9 In performing the evaluation required by paragraph 21 of CAS 210, the auditor may consider it necessary to alert readers that law or regulation requires the auditor to express an opinion using wording that is otherwise prohibited by the CASs. Such an alert may be included in an Other Matter paragraph or in the section of the report subtitled “Reporting on Other Legal and Regulatory Requirements,” as appropriate. The following is an example of such an alert:

*Reporting on Other Legal and Regulatory Requirements*

We wish to alert readers that we are required by [specify legislation or regulation] to express our opinion on the financial statements using the phrase “present fairly, in all material respects”, which would not be the case under Canadian generally accepted auditing standards as we have determined that the financial reporting framework prescribed by [legislation or regulation] would be unacceptable for the Company but for the fact that it is prescribed by law or regulation.

- 3.10 Paragraph 20 of CAS 210 states that if the conditions outlined in paragraph 19 are not present and the auditor is required by law or regulation to undertake the audit engagement, the auditor shall:
- a. Evaluate the effect of the misleading nature of the financial statements on the report; and
  - b. Include appropriate reference to this matter in the terms of the audit engagement.
- 3.11 In performing such evaluation, the auditor makes reference to CAS 705 and modifies the opinion if applicable.

## C Special Purpose Financial Reporting Frameworks

### 1 How should the report alert readers that the financial statements are prepared in accordance with a special purpose framework?

#### Background

- 1.1 CAS 800 deals with special considerations in the application of CASs in the 100-700 series to an audit of financial statements prepared in accordance with a special purpose financial reporting framework. A special purpose financial reporting framework is a financial reporting framework designed to meet the financial information needs of specific users. Special purpose financial statements are financial statements prepared in accordance with a special purpose financial reporting framework. The special purpose financial reporting framework may be a fair presentation or compliance framework (Refer to [Section D, Q&A 1](#)).
- 1.2 Paragraph A20 of CAS 800 indicates that special purpose financial statements may be used for purposes other than those for which they are intended. To avoid misunderstandings, paragraph 14 of CAS 800 requires the auditor to alert users of the report that the financial statements are prepared in accordance with a special purpose framework and, therefore, may not be suitable for another purpose. This alert is included within a separate section of the report with an appropriate heading that includes the term “Emphasis of Matter”.
- 1.3 Paragraph A21 of CAS 800 indicates that, in addition to the alert required by paragraph 14 of CAS 800, the auditor may consider it appropriate to indicate that the report is intended solely for the specific users. This may be achieved by restricting the distribution or use of the report.

- 1.4 Therefore, there are four possible types of paragraph that the auditor may use to alert readers of the basis of accounting and the distribution or use of the report. The following are examples of the different types of possible wording (bold text has been used to identify differences in the wording):
- a. When alerting readers to the basis of accounting, but the auditor does not consider it necessary to restrict either distribution or use:

*Emphasis of Matter - Basis of Accounting*

We draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Entity to comply with the financial reporting provisions of the contract.<sup>6</sup> As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

- b. When alerting readers to the basis for accounting and the auditor considers it necessary to restrict use, but not distribution:

*Emphasis of Matter - Basis of Accounting **and Restriction on Use***

We draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Entity to comply with the financial reporting provisions of the contract.<sup>7</sup> As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter. **Our report is intended solely for the Company and DEF Company and should not be used by parties other than the Company or DEF Company.**

6 "The contract" would be defined in the Opinion paragraph.

7 "The contract" would be defined in the Opinion paragraph.

- c. When alerting readers to the basis for accounting and the auditor considers it necessary to restrict distribution, but not the use:

*Emphasis of Matter – Basis of Accounting **and Restriction on Distribution***

We draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Entity to comply with the financial reporting provisions of the contract.<sup>8</sup> As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter. **Our report is intended solely for the Company and DEF Company and should not be distributed to parties other than the Company or DEF Company.**

- d. When alerting readers to the basis for accounting and the auditor considers it appropriate to restrict both distribution and use:

*Emphasis of Matter – Basis of Accounting **and Restriction on Distribution and Use***

We draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Entity to comply with the financial reporting provisions of the contract.<sup>9</sup> As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter. **Our report is intended solely for the Company and DEF Company, and should not be distributed to or used by parties other than the Company or DEF Company.**

## 2 When management has a choice of financial reporting framework – When does the report include the additional wording required by paragraph 13(b) of CAS 800?

- 2.1 Paragraph 13(b) of CAS 800 requires that if management has a choice of financial reporting frameworks in the preparation of special purpose financial statements, the explanation of management’s responsibility for the financial statements in the report shall also make reference to management’s responsibility for determining that the applicable financial reporting framework

8 “The contract” would be defined in the Opinion paragraph.

9 “The contract” would be defined in the Opinion paragraph.

is acceptable in the circumstances. Therefore, this additional reference is only made in the report when the financial reporting framework is a special purpose framework.

- 2.2 The additional reference is not made when the financial reporting framework is a general purpose framework. As discussed in [Q&A 1 of Section B](#) in this chapter, when financial statements are prepared for a specific use in accordance with a general purpose financial reporting framework, the auditor reports on such financial statements in accordance with CAS 700. For example, if a contract requires that financial statements be prepared in accordance with “Canadian generally accepted accounting principles”, management has a choice of financial reporting frameworks because Canadian GAAP includes different financial reporting frameworks in Parts I to IV of the *CPA Canada Handbook—Accounting* and the *CPA Canada Public Sector Accounting Handbook*. In such a case, the financial reporting framework applied by management in preparing the financial statements is a general purpose financial reporting framework and the auditor reports in accordance with CAS 700, unless the financial reporting framework is not designed for that type of entity when, as discussed in Q&A 1 of Section B in this chapter, the auditor may (conclude that the financial reporting framework is a special purpose financial reporting framework and that the auditor can report in accordance with CAS 800).
- 2.3 The following examples may be useful in explaining when additional wording is needed in the report to meet the requirement in paragraph 13(b) of CAS 800:
- a. A creditor may request cash flow information but not specify how the cash flow information must be prepared. In satisfying the creditor’s request for information, management may, for example, prepare the cash flow information using the cash receipts and disbursements basis of accounting. In this circumstance, management has had to choose a financial reporting framework that it believes will result in the preparation of financial information that meets the needs of the intended user.
  - b. The financial reporting provisions of a contract may require financial statements prepared in accordance with a financial reporting framework established by a recognized standard-setting organization or by law or regulation, but not comply with all the requirements of that framework (for example, “Canadian generally accepted accounting principles except that no amortization will be recognized on property, plant and equipment”). Because Canadian GAAP includes different financial reporting frameworks, the reference to Canadian GAAP is not specific enough to enable management to choose its accounting policies. Management chooses the financial reporting framework in Canadian GAAP that is designed for



that type of entity and is acceptable in the circumstances and uses that framework as the basis for preparing financial statements that comply with the prescribed financial reporting framework (for example, Canadian accounting standards for private enterprises prepared without amortization of property, plant and equipment). For some entities, the *CPA Canada Handbook - Accounting* provides a choice of financial reporting frameworks. For example, a private enterprise applies either Canadian accounting standards for private enterprises in Part II or the International Financial Reporting Standards in Part I of the *CPA Canada Handbook - Accounting*. In this case, the auditor amends the report to comply with paragraph 13(b) of CAS 800. Accordingly, even though the financial reporting framework may be described as, for example, “the financial reporting provisions in the contract”, management has a choice of financial reporting frameworks to apply in complying with those reporting provisions. For pension plans, *CPA Canada Handbook - Accounting* requires the entity to apply Part IV, Canadian accounting standards for pension plans. Because a pension plan does not have a choice of financial reporting frameworks, the report does not need to be amended.

- 2.4 When the explanation of management’s responsibility for the financial statements in the report includes the additional reference required by paragraph 13(b) of CAS 800, the explanation (shown with bold text) may be worded as follows:

Management is responsible for the preparation [and fair presentation] of the financial statements in accordance with [the applicable financial reporting framework]; **this includes determining that the applicable financial reporting framework is acceptable for the preparation of the financial statements in the circumstances**, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

- 2.5 [Illustrative Report 5](#) in this chapter provides examples of a report containing the additional reference in the explanation of management’s responsibility for financial statements, and for a schedule of items of a financial statement, respectively.

### 3 What factors does the auditor consider in determining whether a special purpose financial reporting framework is acceptable?

- 3.1 Paragraph A4 of CAS 210 indicates that factors that are relevant to the auditor's determination of the acceptability of the financial reporting framework to be applied in the preparation of the financial statements include:
- a. The nature of the entity (for example, whether it is a business enterprise, a public sector entity or a not-for-profit organization);
  - b. The purpose of the financial statements (for example, whether they are prepared to meet the common financial information needs of a wide range of users or the financial information needs of specific users);
  - c. The nature of the financial statements (for example, whether the financial statements are a complete set of financial statements or a single financial statement); and
  - d. Whether law or regulation prescribes the applicable financial reporting framework.
- 3.2 Paragraph A6 of CAS 800 applies for special purpose frameworks. In the absence of indications to the contrary, a financial reporting framework established by a regulator for a certain type of entity to meet the financial reporting requirements of that regulator is presumed acceptable for special purpose financial statements prepared by such an entity.
- 3.3 When the financial reporting framework comprises financial reporting standards established by an authorized or recognized standards setting organization that is supplemented by law or regulation, the auditor considers the requirements in paragraph 18 of CAS 210. One of the considerations in accepting the engagement will be whether the description of the applicable financial reporting framework in the financial statements is amended accordingly, (i.e., the description of the framework does not imply full compliance with accounting standards for pension plans).

## D Fair Presentation or Compliance Frameworks

### 1 How does the auditor determine whether a financial reporting framework is a fair presentation or a compliance framework?

#### Background

- 1.1 Paragraph 13(a) of CAS 200 defines a fair presentation framework as a financial reporting framework that requires compliance with the requirements of the framework and:
  - a. acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
  - b. acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.<sup>10</sup>
- 1.2 Paragraph 13(a) of CAS 200 indicates that a compliance framework is a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgments in paragraph 1.1(a) or 1.1(b) of this Q&A.
- 1.3 While the definition of a fair presentation framework in CAS 200 may appear straightforward, in certain circumstances, the auditor uses professional judgment in deciding whether a financial reporting framework is a fair presentation framework.
- 1.4 The distinction between a fair presentation framework and a compliance framework is important, for example:
  - a. Paragraph 14 of CAS 700 states that when financial statements are prepared in accordance with a fair presentation framework, the evaluation required in paragraphs 12-13 of CAS 700 shall also include whether the financial statements achieve fair presentation. The auditor's evaluation as to whether the financial statements achieve fair presentation shall include consideration of:
    - i. the overall presentation, structure and content of the financial statements; and

<sup>10</sup> Paragraph 19 of IAS 1 *Presentation of Financial Statements* in Part I of the *CPA Canada Handbook—Accounting* contains such an acknowledgement; however, Parts II-V do not.

- ii. whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- b. Paragraph 19 of CAS 700 states that when the financial statements are prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the financial statements achieve fair presentation.
- c. Paragraph 25 of CAS 700 states that when expressing an unmodified opinion on financial statements prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:
  - i. the accompanying financial statements present fairly, in all material respects, [...] in accordance with [the applicable financial reporting framework]; or
  - ii. the accompanying financial statements give a true and fair view of [...] in accordance with [the applicable financial reporting framework].
- d. Paragraph 26 of CAS 700 states that when expressing an unmodified opinion on financial statements prepared in accordance with a compliance framework, the auditor's opinion shall be that the accompanying financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework].
- e. Paragraph 34 of CAS 700 states that where the financial statements are prepared in accordance with a compliance framework, the explanation of management's responsibility for the financial statements in the report shall refer to "the preparation of these financial statements".
- f. Paragraph 36 of CAS 700 states that where the financial statements are prepared in accordance with a fair presentation framework, the explanation of management's responsibility for the financial statements in the report shall refer to "the preparation **and fair presentation** of these financial statements".
- g. Paragraph 39(b)(v) of CAS 700 states that when the financial statements are prepared in accordance with a fair presentation framework, the description of the auditor's responsibilities for the audit in the report shall state to "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”.

The following table outlines the reporting differences in the various sections of the report between financial statements prepared in accordance with a fair presentation framework and a compliance framework (bold text highlights the differences).

Report sections	Fair presentation financial reporting framework	Compliance financial reporting framework
Unmodified Opinion <i>Refer to 1.4(c) and 1.4(d) above</i>	In our opinion, the accompanying financial statements <b>present fairly</b> , in all material respects, [...] in accordance with [the applicable financial reporting framework].	In our opinion, the accompanying financial statements [...] <b>are prepared</b> , in all material respects, in accordance with [the applicable financial reporting framework].
Responsibilities of Management and Those Charged with Governance for the Financial Statements <i>Refer to 1.4(e) and 1.4(f) above</i>	Management is responsible for the <b>preparation and fair presentation</b> of the financial statements in accordance with [the applicable financial reporting framework].	Management is responsible for the <b>preparation</b> of the financial statements in accordance with [the applicable financial reporting framework].
Auditor’s Responsibilities for the Audit of the Financial Statements <i>Refer to 1.4(g) above</i>	<b>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.</b>	—

Other CASs may also identify different consequences for the auditor and the report depending on whether the financial reporting framework is a fair presentation framework or a compliance framework.

### Factors to consider in deciding whether a financial reporting framework is a fair presentation or compliance framework

- 1.5 Financial reporting frameworks that encompass the financial reporting standards established by an organization that is authorized or recognized to promulgate standards to be used by entities for preparing general purpose financial statements are often designed to achieve fair presentation. Financial reporting frameworks designed to achieve fair presentation include those set out in the *CPA Canada Handbook—Accounting* and the *CPA Canada Public Sector Accounting Handbook*.
- 1.6 The financial reporting framework is not necessarily a fair presentation framework when, for example, the financial reporting framework:
- a. is not established by such an organization; or
  - b. is based on a fair presentation framework established by such an organization, but does not comply with **all** the requirements of that framework.
- 1.7 It is a necessary feature of a fair presentation framework that it include one of the acknowledgments referred to in paragraph 1.1 of this Q&A. When a financial reporting framework is based on a financial reporting framework discussed in paragraph 1.5 of this Q&A, unless these acknowledgements have been expressly removed, modified or otherwise overridden, it can usually be presumed that it contains one of these acknowledgments. In Canada, such acknowledgements can be found in:
- a. IAS 1, *Presentation of Financial Statements*, paragraphs 15, 17(c) and 19-24 in Part I of the *CPA Canada Handbook—Accounting*;
  - b. *General Standards of Financial Statement Presentation*, paragraphs 1400.03-.06 in Part II of the *CPA Canada Handbook—Accounting*;
  - c. *General Standards of Financial Statement Presentation for Not-for-Profit Organizations*, paragraphs 1401.03-.06 in Part III of the *CPA Canada Handbook—Accounting*;
  - d. *Pension Plans*, Section 4600 of Part IV of the *CPA Canada Handbook—Accounting* requires entities that apply this Part to comply with the general financial statement presentation requirements in either Part I or Part II so the acknowledgements for Part IV are the respective acknowledgements found in Part I or Part II depending on which Part the entity chooses to follow; and

- e. *Financial Statement Presentation*, paragraphs PS 1200.012-.014 and PS 1201.012-.014 in the *CPA Canada Public Sector Accounting Handbook*.

When a financial reporting framework is not based on a financial reporting framework discussed above, it is much less likely that such a framework contains such acknowledgments.

- 1.8 However, the CASs recognize that even when a framework does contain the acknowledgments referred to in paragraph 1.1 of this Q&A, this is not necessarily sufficient for the financial reporting framework to be a fair presentation framework. Paragraph A3 of CAS 800 states that a special purpose framework may not be a fair presentation framework even if the financial reporting framework on which it is based is a fair presentation framework. This is because the special purpose framework may not comply with all the requirements of the financial reporting framework established by the authorized or recognized standard-setting organization or by law or regulation that are necessary to achieve fair presentation of the financial statements.
- 1.9 Accordingly, when a financial reporting framework complies with the definition of a fair presentation framework in CAS 200 but differs from the financial reporting standards that would normally be used for that type of entity, the auditor may consider the nature and extent of differences between the framework and those financial reporting standards and the circumstances of the engagement. The following are examples of the auditor's considerations in this respect:
  - a. If the financial statements are prepared to meet the specific information needs of a regulator and the regulator has specified the financial reporting framework for presenting the financial position and results of operations of the entity, the auditor may be more likely to conclude that the financial reporting framework is a fair presentation framework rather than a compliance framework.
  - b. If the financial statements are designed to present the financial position, results of operations and cash flows of an acquired business that is part of an incorporated entity, and the differences between the financial reporting framework and the financial reporting standards that would normally be used for general purpose financial statements for an incorporated entity appear to be designed to achieve fair presentation of the acquired business, the auditor may be more likely to conclude that the financial reporting framework is a fair presentation framework rather than a compliance framework.

- c. If the financial statements are intended to meet the common information needs of a broad range of users and the differences between the financial reporting framework and the financial reporting standards that would normally be used for general purpose financial statements for that type of entity appear to be pervasive, the auditor may be more likely to conclude that the financial reporting framework is a compliance framework rather than a fair presentation framework.
- d. If the nature of the financial statements is to present the results of calculations prescribed by a regulator for monitoring compliance, such as a regulatory capital report where there is limited scope for judgment (rather than present the financial position and performance of the entity), the auditor may be more likely to conclude that the financial reporting framework is a compliance framework than a fair presentation framework.



## Introduction to illustrative reports

For the purposes of the illustrative reports in this chapter, the following circumstances are assumed, unless indicated otherwise:

Topic and circumstance	Reference to guidance
<b>Type of Entity</b>	
<ul style="list-style-type: none"> <li>The entity under audit is an entity other than a listed entity.</li> </ul>	Chapter 9
<b>Subject Matter</b>	
<ul style="list-style-type: none"> <li>The auditor reports on a complete set of financial statements.</li> </ul>	Chapter 5, Section A, Q&A 2
<b>Opinion</b>	
<ul style="list-style-type: none"> <li>The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate.</li> </ul>	
<b>Comparative Information</b>	
<ul style="list-style-type: none"> <li>The auditor is reporting under the corresponding figures approach (i.e., the auditor’s opinion on the financial statements refer to the current period only)</li> </ul>	Chapter 4, Q&A 1
<b>Financial Reporting Framework</b>	
<ul style="list-style-type: none"> <li>The applicable financial reporting framework is a fair presentation financial reporting framework.</li> </ul>	Chapter 1, Section D, Q&A 1
<ul style="list-style-type: none"> <li>The auditor has determined that the general purpose financial reporting framework is acceptable.</li> </ul>	Chapter 1, Section B, Q&A 2
<b>Ethical Requirements</b>	
<ul style="list-style-type: none"> <li>The auditor has decided to only make reference to relevant ethical requirements in Canada that apply to the audit.</li> </ul>	Chapter 10
<b>Going Concern</b>	
<ul style="list-style-type: none"> <li>The auditor has determined that the going concern basis of accounting is relevant.</li> <li>No material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.</li> </ul>	Chapter 11
<b>Key Audit Matters</b>	
<ul style="list-style-type: none"> <li>The auditor is not required, and has otherwise not decided, to communicate key audit matters, in accordance with CAS 701.</li> </ul>	

Topic and circumstance	Reference to guidance
<b>Other Information</b>	
<ul style="list-style-type: none"> <li>The auditor has determined that there is no other information (i.e., the requirements of CAS 720 do not apply)</li> </ul>	Chapter 14
<b>Responsibility of Management and Those Charged with Governance</b>	
<ul style="list-style-type: none"> <li>The terms of the audit engagement do not include any additional management responsibilities in addition to those in paragraph 6(b) of CAS 210.</li> <li>Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.</li> </ul>	Chapter 2, Q&A 3
<b>Auditor's Responsibilities</b>	
<ul style="list-style-type: none"> <li>The description of the auditor's responsibilities are included within the body of the auditor's report (refer to paragraph 41 of CAS 700).</li> </ul>	
<b>Group Audit</b>	
<ul style="list-style-type: none"> <li>The audit is not a group audit engagement (i.e., the requirements of CAS 600 do not apply).</li> </ul>	
<b>Other Reporting Responsibilities</b>	
<ul style="list-style-type: none"> <li>The auditor has no other reporting responsibilities required under law or regulation.</li> </ul>	

### **Illustration 1: Pension fund financial statements filed with a regulator in accordance with a special purpose financial reporting framework**

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional circumstances are assumed:

#### **Purpose of the financial statements:**

- These financial statements are to meet the expressed needs of the pension regulator.

#### **Financial reporting framework:**

- The special purpose financial reporting framework is prescribed by law or regulation which requires the financial statements to be prepared in accordance with the financial reporting provisions of Section X of the Y Act.
- The financial reporting provisions of Section X of the Y Act indicate the financial statements to be presented and what such statements are designed to present.

#### **Reporting implications:**

- An Emphasis of Matter paragraph is required.
  - Refer to [Q&A 1 of Chapter 3](#).
- Included within the Emphasis of Matter paragraph, information pertaining to an Other Matter is provided to restrict the use, but not the distribution of the report.
  - Refer to [Section C, Q&A 1](#) of this chapter.

## INDEPENDENT AUDITOR'S REPORT

[Trustees of ABC Pension Plan]

*Opinion*

We have audited the **fund** financial statements of ABC Pension Plan (the fund financial statements), which **comprise the statement of net assets available for benefits** as at December 31, 20X1, **and the statement of changes in net assets available for benefits** for the year then ended, and notes to the **fund** financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying **fund** financial statements present fairly, in all material respects, the **net assets available for benefits of ABC Pension Plan** as at December 31, 20X1, **and its changes in net assets available for benefits** for the year then ended in accordance with **the financial reporting provisions of Section X of the Y Act**.

*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 **Fund** Financial Statements* section of our report. We are independent of ABC Pension Plan in accordance with the ethical requirements that are relevant to our audit of the **fund** 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.

***Emphasis of Matter - Basis of Accounting and Restriction on Use***

**We draw attention to Note Z to the fund financial statements, which describes the basis of accounting. The fund financial statements are prepared to assist the Trustees of ABC Pension Plan to meet the requirements of Pension Regulator. As a result, the fund financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter. Our report is intended solely for the Trustees of ABC Pension Plan and the Pension Regulator and should not be used by parties other than the Trustees of ABC Pension Plan or the Pension Regulator.**

*Responsibilities of Management and Those Charged with Governance for the **Fund** Financial Statements*  
Management is responsible for the preparation and fair presentation of the **fund** financial statements in accordance with **the financial reporting provisions of Section X of the Y Act**, and for such internal control as management determines is necessary to enable the preparation of **fund** financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing ABC Pension Plan's financial reporting process.

*Auditor's Responsibilities for the Audit of the **Fund** Financial Statements*

Our objectives are to obtain reasonable assurance about whether the **fund** 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 **fund** 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 **fund** 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 ABC Pension Plan'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 ABC Pension Plan'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 ABC Pension Plan to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the **fund** financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

[Auditor's signature]

[Auditor's address]

[Date]

## **Illustration 2: Financial statements prepared in accordance with the terms of a purchase and sale agreement in accordance with a special purpose financial reporting framework**

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional circumstances are assumed:

### **Purpose of the financial statements:**

- These financial statements are prepared to meet the expressed needs of the parties to the purchase and sale agreement.

### **Financial reporting framework:**

- The special purpose financial reporting framework is described in the financial reporting provisions of Section X of the purchase and sale agreement between the Entity and DEF Company (“the Agreement”).
- The Agreement requires the financial statements to be prepared in accordance with Part II of the *CPA Canada Handbook – Accounting (ASPE)* except that the property has been valued at appraised values rather than in accordance with the accounting standards.
- Management does not have a choice of financial reporting frameworks.

### **Reporting implications:**

- An Emphasis of Matter paragraph is required.
  - Refer to [Q&A 1 of Chapter 3](#).
- Included within the Emphasis of Matter paragraph, information pertaining to an Other Matter is provided to restrict the use, but not the distribution of the report.
  - Refer to [Section C, Q&A 1](#) of this chapter.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate addressee]

*Opinion*

We have audited the financial statements of ABC Company (the Entity), which comprise the balance sheet as at December 31, 20X1, and the statements of income, retained earnings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 20X1, and its results of operations and its cash flows for the year then ended in accordance with **the financial reporting provisions of Section X of the purchase and sale agreement between the Entity and DEF Company (“the Agreement”)**.

*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 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.

***Emphasis of Matter - Basis of Accounting and Restriction on Use***

**We draw attention to Note Y to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Entity to comply with the financial reporting provisions of Section X of the Agreement. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter. Our report is intended solely for the Directors of the Entity and DEF Company and should not be used by parties other than the Directors of the Entity or DEF Company.**

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with **the financial reporting provisions of Section X of the Agreement**, 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters relating 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.

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

*Auditor's Responsibilities for the Audit of the 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's 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]



### **Illustration 3: Financial statements of a co-operative housing association filed with Canada mortgage and housing corporation in accordance with a special purpose financial reporting framework**

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional circumstances are assumed:

#### **Purpose of the financial statements:**

- These financial statements are prepared to meet the expressed needs of Canada Mortgage and Housing Corporation (CMHC) under the terms of the mortgage agreement.

#### **Financial reporting framework:**

- The special purpose financial reporting framework is described in the financial reporting provisions of Section X of the mortgage agreement between the Entity and Canada Mortgage and Housing Corporation (CMHC) (“the Mortgage Agreement”).
- The Mortgage Agreement requires the financial statements to be prepared in accordance with Part II of the *CPA Canada Handbook – Accounting (ASPE)* except that the property has been amortized at a rate equal to the annual principal reduction on the mortgage rather than in accordance with the accounting standards; capital assets purchased from accumulated surplus are charged to operations in the year the expenditure is incurred, and capital assets purchased from the replacement reserve are charged against the replacement reserve account, rather than being capitalized on the balance sheet and amortized over their estimated useful lives; and, a reserve for future capital replacement is appropriated annually from operations.
- Management does not have a choice of financial reporting frameworks.

#### **Reporting implications:**

- An Emphasis of Matter paragraph is required.
  - Refer to [Q&A 1 of Chapter 3](#).
- Included within the Emphasis of Matter paragraph, information pertaining to an Other Matter is provided to restrict the use, but not the distribution of the report.
  - Refer to [Section C, Q&A 1](#) of this chapter.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate addressee]

*Opinion*

We have audited the financial statements of ABC Housing Co-operative (the Entity), which comprise the balance sheet as at December 31, 20X1, and the statements of income, retained earnings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 20X1, and its results of operations and its cash flows for the year then ended in accordance with **the financial reporting provisions of Section X of the mortgage agreement between the Entity and Canada Mortgage and Housing Corporation (CMHC) (“the Mortgage Agreement”)**.

*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 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.

***Emphasis of Matter - Basis of Accounting and Restriction on Use***

**We draw attention to Note Y to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Entity to comply with the financial reporting provisions of Section X of the Mortgage Agreement. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter. Our report is intended solely for the Directors of the Entity and CMHC and should not be used by parties other than the Directors of the Entity or CMHC.**

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with **the financial reporting provisions of Section X of the Mortgage Agreement** 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters relating 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.

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

*Auditor's Responsibilities for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]

#### **Illustration 4: Non-consolidated financial statements prepared in accordance with a general purpose financial reporting framework for a specific use**

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional circumstances are assumed:

##### **Purpose of the financial statements:**

- These financial statements are prepared for a specific use in order to assist ABC Company to prepare its corporate income tax returns filed with the income tax authorities.
- ABC Company also prepared a consolidated set of financial statements for general use.

##### **Financial reporting framework:**

- These financial statements are prepared in accordance with Part II of the *CPA Canada Handbook – Accounting* (ASPE).
- Paragraph 28 of Section 1591, *Subsidiaries*, requires that when an enterprise presents non-consolidated financial statements, it shall describe its financial statements as being prepared on a non-consolidated basis and each statement shall be labeled accordingly. The report would refer to each statement as being non-consolidated.

##### **Reporting implications:**

- An Other Matter paragraph is used to restrict the use of the report.
  - Refer to [Section C, Q&A 1](#) of this chapter.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate addressee]

*Opinion*

We have audited the **non-consolidated** financial statements of ABC Company (the Entity), which comprise the **non-consolidated** balance sheet as at December 31, 20X1, and the **non-consolidated** statements of income, retained earnings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying **non-consolidated** financial statements present fairly, in all material respects, the **non-consolidated** financial position of the Entity as at December 31, 20X1, and its results of **non-consolidated** operations and its **non-consolidated** cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

*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 **Non-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 **non-consolidated** 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.

**Other Matter**

**The Entity has prepared a consolidated set of financial statements for the year ended December 31, 20X1 in accordance with International Financial Reporting Standards on which we issued an auditor's report to the shareholders of the Entity dated March 31, 20X2.**

**Other Matter – Restriction on Use**

**These non-consolidated financial statements have been prepared to assist the Entity to prepare its corporate income tax returns. Our report is intended solely for the Entity and the income tax authorities and should not be used by parties other than the Entity or the income tax authorities.**

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

Management is responsible for the preparation and fair presentation of these **non-consolidated** financial statements in accordance with Canadian accounting standards for private enterprises, 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.

In preparing the **non-consolidated** financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters relating 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.

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

*Auditor's Responsibilities for the Audit of the **Non-Consolidated** Financial Statements*

Our objectives are to obtain reasonable assurance about whether the **non-consolidated** 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 **non-consolidated** 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 **non-consolidated** financial statements, including the disclosures, and whether the **non-consolidated** financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

[Auditor's signature]

[Auditor's address]

[Date]

### **Illustration 5: Financial statements of a registrant prepared in accordance with a special purpose financial reporting framework [i.e., National Instrument 52-107, paragraph 3.2(3)(a)]**

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

#### **Purpose of the financial statements:**

- These financial statements are prepared to comply with the securities regulatory requirements for registrants.

#### **Financial reporting framework:**

- The special purpose financial reporting framework is prescribed by paragraph 3.2(3)(a) of National Instrument 52-107.
- Paragraph 3.2(3)(a) of National Instrument 52-107 requires that financial statements delivered by registrants are to be prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises, except that any investments in subsidiaries, jointly controlled entities and associates must be accounted for as specified for separate financial statements in IAS 27, *Separate Financial Statements*.
- The special purpose financial reporting framework is referred to in the financial statements as the financial reporting framework specified in paragraph 3.2(3)(a) of National Instrument 52-107 for financial statements delivered by registrants.

#### **Reporting implications:**

- A comparative financial statement reporting approach has been used.
  - See [Chapter 4, Section A, Q&A 1](#).

## INDEPENDENT AUDITOR'S REPORT

[Appropriate addressee]

*Opinion*

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 20X1 **and December 31, 20X0**, and its financial performance and its cash flows for the years then ended in accordance with **the financial reporting framework specified in paragraph 3.2(3)(a) of National Instrument 52-107 Acceptable Accounting Principles and Auditing Standards for financial statements delivered by registrants**.

*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 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 audit opinion.

***Emphasis of Matter - Basis of Accounting and Restriction on Use***

**We draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Entity to meet the requirements of National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter. Our report is intended solely for the Directors of the Entity and Regulator DEF, and should not be used by parties other than the Directors of the Entity or Regulator DEF.**

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance **with the financial reporting framework specified in paragraph 3.2(3)(a) of National Instrument 52-107 Acceptable Accounting Principles and Auditing Standards for financial statements delivered by registrants**, 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters relating 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.

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



*Auditor's Responsibilities for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]

### **Illustration 6: Financial statements prepared in accordance with a special purpose financial reporting framework that is a compliance financial reporting framework**

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional circumstances are assumed:

#### **Purpose of the financial statements:**

- These financial statements are prepared to meet the expressed needs of the parties to a contract.

#### **Financial reporting framework:**

- The special purpose financial reporting framework is described in the financial reporting provisions of Section Z of the contract dated January 1, 20X1 between the Entity and DEF Company (“the Contract”).
- Management does not have a choice of financial reporting frameworks.
- The special purpose financial reporting framework is a compliance framework.
  - Refer to [Section D, Q&A 1](#) of this chapter.

#### **Reporting implications:**

- An Emphasis of Matter paragraph is required.
  - Refer to [Q&A 1 of Chapter 3](#).
- Included within the Emphasis of Matter paragraph, information pertaining to an Other Matter is provided to restrict the use and the distribution of the report.
  - Refer to [Section C, Q&A 1](#) of this chapter.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate addressee]

*Opinion*

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

In our opinion, the accompanying financial statements **are prepared**, in all material respects, in accordance with the financial reporting provisions of Section Z of the contract dated January 1, 20X1 between the Entity and DEF Company (“the Contract”).

*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 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 audit opinion.

***Emphasis of Matter - Basis of Accounting and Restriction on Distribution and Use***

**We draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Entity to comply with the financial reporting provisions of Section Z of the Contract. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter. Our report is intended solely for the Entity and DEF Company and should not be distributed to or used by parties other than the Entity or DEF Company.**

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

Management is responsible for **the preparation** of these financial statements in accordance with the financial reporting provisions of Section Z of the contract, 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.

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.

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

*Auditor's Responsibilities for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]

## CHAPTER 2

# Addressing and Dating of the Report

This chapter includes the following Q&As:

- |   |   |    |
|---|---|----|
| 1 | Who is the appropriate addressee of the report?   | 70 |
| 2 | On what date must the auditor date the report?  | 70 |
| 3 | When have all the statements and disclosures that comprise the financial statements been prepared?  | 71 |
| 4 | In Canada, who are “those with the recognized authority”?   | 72 |
| 5 | How does the auditor date the report when a fact becomes known to the auditor after the date of the report and before the date the financial statements are issued? | 73 |

## 1 Who is the appropriate addressee of the report?

- 1.1 Paragraph 22 of CAS 700 requires that the auditor's report be addressed, as appropriate, based on the circumstances of the engagements.
- 1.2 The auditor's report is normally addressed to those for whom the report is prepared. It is often addressed to the shareholders, to those charged with governance of the entity or to the board of directors of the entity whose financial statements are being audited.
- 1.3 Paragraph A21 of CAS 700 further states that law, regulation or the terms of the engagement may specify to whom the auditor's report is to be addressed. The auditor may consider addressing these reports to both the board of directors of the reporting entity and the third-party addressee.
- 1.4 When it is not clear who the addressee of the report is, the auditor may consider discussing the matter further with the engaging party.

## 2 On what date must the auditor date the report?

- 2.1 Paragraph 49 of CAS 700 requires that the report be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that:
  - a. All the statements and disclosures that comprise the financial statements have been prepared; and
  - b. Those with the recognized authority have asserted that they have taken responsibility for those financial statements.
- 2.2 Even when the auditor has obtained audit evidence concerning (a) and (b) in paragraph 2.1 of this Q&A, the auditor may still not be able to date the report because the auditor has not obtained sufficient appropriate audit evidence from audit procedures to support the content of his or her report based on the completed financial statements. For example, the auditor may still need to obtain audit evidence with respect to the selection and application of the entity's accounting policies to evaluate whether they are consistent with the applicable financial reporting framework and are appropriate as required by paragraph 13 (b) of CAS 700 and to evaluate the adequacy of disclosures in the financial statements as required by paragraph 13 (e) of CAS 700.

- 2.3 Paragraphs 35 and 36 of CSQC 1 require that, for audits of listed entities, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required, the engagement report shall not be dated until completion of the engagement quality control review. These requirements are also stated in Paragraph 19 of CAS 220.
- 2.4 Paragraph 17 of CAS 220 requires that, on or before the date of the report, the engagement partner, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the report to be issued.

### **3 When have all the statements and disclosures that comprise the financial statements been prepared?**

- 3.1 Paragraph 6(b) of CAS 210 states that the auditor shall obtain the agreement of management that it acknowledges and understands its responsibilities. One of these responsibilities is the preparation of the financial statements in accordance with the applicable financial reporting framework. There may be instances when the entity has not completed the financial statements and some adjustment or disclosure that could be material to the financial statements is still to be made. This may include, for example, the finalization of the entity's income tax provision or the updating of the financial statements for subsequent events that require adjustment or disclosure. In such a case, the financial statements would be complete when the income tax provision is reflected in the financial statements or, in the case of subsequent events that require adjustment or disclosure in the financial statements, when such events have been recognized or disclosed in the financial statements.
- 3.2 If the entity is still in the process of completing the financial statements (for example, the finalization of the entity's bonus accruals and income tax provision), the related audit procedures on the financial statement items or notes that remain to be completed will not yet have been performed by the auditor. The report must not be dated before the auditor has obtained sufficient appropriate audit evidence from audit procedures to support the content of his or her report based on the completed financial statements.
- 3.3 As explained in paragraph A24 of CAS 210 the terms of the audit engagement include the agreement of management to inform the auditor of facts that may affect the financial statements, of which management may become aware during the period from the date of the report to the date the financial statements are issued. Paragraph 9 of CAS 560 requires the auditor to request management

and, where appropriate, those charged with governance to provide a written representation in accordance with CAS 580 that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed. Paragraph 14 of CAS 580 requires that the date of the written representations be as near as practicable to, but not after, the date of the report on the financial statements. In the circumstances where the date of the report is significantly later than the date on which those with the recognized authority took responsibility for the financial statements, the auditor may remind management of its agreement under the terms of the engagement and its responsibility to provide written representations with respect to subsequent events up to the date of the report.

#### **4 In Canada, who are “those with the recognized authority”?**

- 4.1 Paragraph A68 of CAS 700 indicates that in some jurisdictions, law or regulation identifies the individuals or bodies (for example, the directors) that are responsible for concluding that all the statements and disclosures that comprise the financial statements have been prepared, and specifies the necessary approval process.
- 4.2 In Canada, most incorporating or other governing legislation recognizes the board of directors as having the power to approve the financial statements.<sup>11</sup> Further, such legislation may also prohibit the board of directors from delegating this power to a managing director or a committee of directors.<sup>12</sup> Accordingly, under such legislation, it is the board of directors that has the recognized authority to assert it has taken responsibility for the financial statements. The auditor would determine those who have the recognized authority by reference to the relevant legislation.
- 4.3 Some legislation may require that the financial statements be approved by the shareholders or other equivalent body. In this case, paragraph A69 of CAS 700 indicates that final approval by shareholders is not necessary for the auditor to conclude that sufficient appropriate audit evidence on which to base the auditor’s opinion on the financial statements has been obtained. The date of approval of the financial statements for purposes of the CASs is the earlier date on which those with the recognized authority determine that all the statements

<sup>11</sup> See, for example, section 158(1) of the *Canada Business Corporations Act*, which requires the directors of the corporation to approve the financial statements.

<sup>12</sup> See, for example, subsection 115(3)(i) of the *Canada Business Corporations Act*.



and disclosures that comprise the financial statements have been prepared and those with the recognized authority have asserted that they have taken responsibility for them.

- 4.4 In some cases, the board may approve the financial statements conditional on final changes being approved by a sub-committee of the board. In this case, the report would be dated at the later date when the sub-committee approves the final financial statements, unless such final changes are only to correct typographical errors or make other minor changes that would not involve the auditor having to obtain further audit evidence.
- 4.5 For entities whose legislation does not prescribe the necessary approval process for the financial statements, paragraph A68 of CAS 700 indicates that the procedures the entity follows in preparing and finalizing its financial statements in view of its management and governance structures are considered in order to identify the individuals or body with the authority to conclude that all statements and disclosures that comprise the financial statements have been prepared. In this circumstance, the auditor would discuss with those charged with governance who have the recognized authority to take responsibility for the financial statements.

## **5 How does the auditor date the report when a fact becomes known to the auditor after the date of the report and before the date the financial statements are issued?**

- 5.1 Paragraph 10 of CAS 560 states that if, after the date of the report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the report, may have caused the auditor to amend the report, the auditor shall:
  - a. Discuss the matter with management and, where appropriate, those charged with governance;
  - b. Determine whether the financial statements need amendment; and if so,
  - c. Inquire how management intends to address the matter in the financial statements.
- 5.2 If management amends the financial statements,<sup>13</sup> the practitioner would need to determine whether law, regulation or the financial reporting framework prohibits:

<sup>13</sup> If management does not amend the financial statements, then refer to paragraph 13 of CAS 560.

- a. Management from restricting the amendment of the financial statements to the effects of the subsequent event or events causing that amendment; and
- b. Those responsible for approving the financial statements from restricting their approval to that amendment.

In Canada, Parts II to IV of the *CPA Canada Handbook—Accounting* and Canadian public sector accounting standards, for example, do not prohibit management from restricting the amendment of the financial statements to the effects of the subsequent event or events causing that amendment or those responsible for approving the financial statements from restricting their approval to that amendment. When it is not clear whether such a prohibition exists, the auditor would consider common practice. With respect to IFRSs in Part I of the *CPA Canada Handbook—Accounting*, research by CPA Canada accounting standards staff indicates that practice globally is not consistent.

- 5.3 The auditor has three methods available for dating the report when the financial statements are amended after the original date of the report:
  - a. Method 1: Issue a new report as required by paragraph 11 of CAS 560 (new report date – necessary when law, regulation or the financial reporting framework prohibits restricting the amendment).
  - b. Method 2: Issue an amended report as required by paragraph 12(a) of CAS 560 (amended report date for additional date restricted to that amendment-dual date).
  - c. Method 3: Issue a new report, with a new report date, with an Emphasis of Matter paragraph as required by paragraph 12(b) of CAS 560 (new updated report date with an Emphasis of Matter paragraph restricting procedures to that amendment).
- 5.4 For Method 1, as discussed in paragraph 5.3(a) of this Q&A, the auditor as required by paragraph 11 of CAS 560, shall:
  - a. Carry out the audit procedures necessary in the circumstances on the amendment.
  - b. Extend the audit procedures referred to in paragraphs 6 and 7 of CAS 560 to the new updated report date. The new report shall not be dated earlier than the date of approval of the amended financial statements.
- 5.5 For Method 2, as discussed in paragraph 5.3(b) of this Q&A, the auditor, as required by paragraph 12(a) of CAS 560 shall carry out the audit procedures necessary in the circumstances on the amendment. The following is an example of how to include an additional date restricted to that amendment:

March 31, 20X1, except as to Note Y, which is as of April 15, 20X1.

- 5.6 For Method 3, as discussed in paragraph 5.3(c) of this Q&A, the auditor as required by paragraph 12(b) of CAS 560 shall carry out audit procedures necessary in the circumstances on the amendment. The following is an example of how to have a new report date with Emphasis of Matter restricted to that amendment:

*Emphasis of Matter – Subsequent Event*

We draw attention to Note X to the financial statements which describe the subsequent event that gave rise to the amendment of the financial statements on April 15, 20X1, the date of our report. Our procedures with respect to events subsequent to March 31, 20X1 are restricted solely to that amendment to the financial statements. Our opinion is not modified in respect of this matter.

## CHAPTER 3

# Emphasis of Matter and Other Matter Paragraphs in the Report

This chapter includes the following Q&As:

- 1 When is the auditor required to include an Emphasis of Matter or Other Matter paragraph in the report and what are the considerations in deciding whether to include such a paragraph? 77
- 2 What are the reporting implications when reporting on financial statements prepared in accordance with a financial reporting framework that permits or requires a change in accounting policy to be applied prospectively? 83

# 1 When is the auditor required to include an Emphasis of Matter or Other Matter paragraph in the report and what are the considerations in deciding whether to include such a paragraph?

## Background

- 1.1 Paragraph 7 of CAS 706 defines Emphasis of Matter and Other Matter paragraphs as follows:
  - a. Emphasis of Matter paragraph – A paragraph included in the report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor’s judgment, is of such importance that it is fundamental to users’ understanding of the financial statements.
  - b. Other Matter paragraph – A paragraph included in the report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor’s judgment, is relevant to users’ understanding of the audit, the auditor’s responsibilities or the report.
- 1.2 Paragraphs 8 and 10 of CAS 706 requires the auditor to include an Emphasis of Matter paragraph or Other Matter paragraph in the report based on the definitions in paragraph 1.1 above, provided when CAS 701 applies, the matter has not been determined to be a key audit matter to be communicated in the report.

## Emphasis of Matter paragraphs

- 1.3 To include more information in an Emphasis of Matter paragraph than is presented or disclosed in the financial statements may imply that the matter has not been appropriately presented or disclosed. Accordingly, paragraph 9(b) of CAS 706 limits the use of an Emphasis of Matter paragraph to information presented or disclosed in the financial statements.
- 1.4 Appendix 1 of CAS 706 identifies other CASs that requires the auditor to include an Emphasis of Matter paragraph in the report in certain circumstances. These CASs are as follows:
  - a. The auditor has determined that the financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation – Paragraph 19(b) of CAS 210;
  - b. Before the financial statements are issued and management amends the financial statements and the auditor provides a new or amended report on the amended financial statements – Paragraph 12(b) of CAS 560 (see Method 3, discussed in [Chapter 2, Q&A 3](#));

- c. After the financial statements are issued and management amends the financial statements and the auditor provides a new or amended report on the amended financial statements – Paragraph 16 of CAS 560 (see [Chapter 4, Section B, Q&A 2](#));
- d. The financial statements are prepared in accordance with a special purpose framework – Paragraph 14 of CAS 800 (see [Chapter 1, Section C, Q&A 1](#)); and
- e. When in the auditor’s judgment, the change in accounting policy is fundamental to the users’ understanding of the financial statements – paragraph 8 of CAS 706 (see [Chapter 4, Section A, Q&A 2](#)).

Emphasis of Matter paragraphs are not used for communications about going concern matters. Refer to *Material Uncertainty Related to Going Concern* section in the report. (Refer to [Chapter 11 – Going Concern](#) for further guidance.)

- 1.5 Outside of the specific requirements to include an Emphasis of Matter paragraph in the report referred to in paragraph 1.4 of this Q&A, the use of such a paragraph is a matter of the auditor’s professional judgment. Paragraph 8 of CAS 706 requires the auditor to include an Emphasis of Matter paragraph in the report if the auditor considers it necessary to draw users’ attention to a matter presented or disclosed in the financial statements that, in the auditor’s judgment, is of such importance that it is fundamental to users’ understanding of the financial statements.
- 1.6 The following examples are circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph:
  - a. An uncertainty exists relating to the future outcome of exceptional litigation or regulatory action – Paragraph A5 of CAS 706.
  - b. A significant subsequent event that occurs between the date of the financial statements and the date of the report – Paragraph A5 of CAS 706.
  - c. Early application (where permitted) of a new accounting standard that has a material effect on the financial statements – Paragraph A5 of CAS 706.
  - d. A major catastrophe that has had, or continues to have, a significant effect on the entity’s financial position – Paragraph A5 of CAS 706.
  - e. An accounting estimate has been identified as having a high estimation uncertainty – Paragraph A114 of CAS 540.
  - f. Management is required, or elects, to prepare financial statements when the use of the going concern assumption is not appropriate in the circumstances and the financial statements are prepared on an alternative basis of accounting (e.g., liquidation basis) determined by the auditor to be an

acceptable financial reporting framework in the circumstances – Paragraphs 19 of CAS 210 and A27 of CAS 570 (see [Chapter 1, Section B, Q&A 3](#) and [Chapter 11, Q&A 4](#)).

- g. The financial statements represent compliance with the applicable financial reporting framework and, in addition, disclose the extent of compliance with another financial reporting framework – Paragraph A31(b) of CAS 700.
  - h. When the prior period financial statements that are misstated, have not been amended and a report has not been reissued, but the corresponding figures have been properly restated or appropriate disclosures have been made in the current period financial statements – Paragraph A6 of CAS 710. (See [Chapter 4 – Comparative Information](#), Modified Opinions and Implications of Predecessor Auditors for additional guidance).
  - i. When the report on an entity’s complete set of financial statements includes an emphasis of matter paragraph and the matter has an impact on the audit of the single financial statement or the specific element of a financial statement – Paragraph 14(b) of CAS 805.
  - j. When restricting the distribution or use of the report when it is intended solely for use of specific users – Paragraph A21 of CAS 800 (See [Chapter 1, Section C, Q&A 1](#)).
  - k. When the auditor considers the disclosures in the financial statements about a close call (when events or conditions were identified that may cast significant doubt on the entity’s ability to continue as a going concern but, the auditor concludes that no material uncertainty exists) to be fundamental to the user’s understanding of the financial statements or other historical financial information.
  - l. When the entity has transitioned from one general purpose framework to another general purpose framework. Although the comparative information was audited, it was not audited on the new reporting framework. (See [Chapter 7, Illustration 2](#))
- 1.7 Paragraph A6 of CAS 706 indicates that a widespread use of Emphasis of Matter paragraphs may diminish the effectiveness of the auditor’s communication of such matters.
- 1.8 Paragraph A7 of CAS 706 indicates that the inclusion of such a paragraph in the report does not affect the auditor’s opinion and is not a substitute for:
- a. A modified opinion when required by the circumstances of a specific audit engagement;

- b. Disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation; or
  - c. Reporting in accordance with CAS 570<sup>14</sup> when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.
- 1.9 Paragraph 8(c) of CAS 230, requires the auditor to prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand significant matters arising during the audit. Paragraph A8 of CAS 230 indicates that findings that could result in the inclusion of an Emphasis of Matter paragraph in the auditor's report are examples of such significant matters.
- 1.10 Paragraph 9 of CAS 706 requires that when the auditor includes an Emphasis of Matter paragraph in the report the auditor shall:
- a. Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter";
  - b. Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements; and
  - c. Indicate that the auditor's opinion is not modified in respect of the matter emphasized.

### Other Matter paragraphs

- 1.11 Appendix 2 of CAS 706 identifies other CASs that requires the auditor to include an Other Matter paragraph in the report in certain circumstances. These CASs are as follows:
- a. Before the financial statements are issued and management amends the financial statements and the auditor provides a new or amended report on the amended financial statements (see Method 3, discussed in [Chapter 2, Q&A 3](#)) - Paragraph 12(b) of CAS 560;
  - b. After the financial statements are issued and management amends the financial statements and the auditor provides a new or amended report on the amended financial statements - Paragraph 16 of CAS 560;

14 CAS 570, paragraphs 22-23.



- c. If the financial statements of the prior period were not audited – Paragraphs 14 and 19 of CAS 710 (see [Chapter 4, Section A, Q&A 5](#));
- d. In a comparative financial statements reporting approach, if the auditor’s opinion on prior period financial statements differs from the opinion the auditor previously expressed – Paragraph 16 of CAS 710; and
- e. If the financial statements of the prior period were audited by a predecessor auditor as follows:
  - i. In a corresponding figures reporting approach, when the successor auditor decides to refer to the predecessor auditor – Paragraph 13 of CAS 710; or
  - ii. In a comparative financial statements approach, unless the predecessor auditor reissues their report – Paragraph 17 of CAS 710.

Other Matter paragraphs are not used for communications about other information matters. Refer to the *Other Information* section in the report. (Refer to [Chapter 14 - Other Information](#) for further guidance.)

- 1.12 Outside of the specific requirements to include an Other Matter paragraph in the report referred to in paragraph 1.11 of this Q&A, the use of such a paragraph is a matter of the auditor’s professional judgment. Paragraph 10 of CAS 706 requires that, if the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor’s judgment, is relevant to users’ understanding of the audit, the auditor’s responsibilities or the report, the auditor shall include an Other Matter paragraph in the report, provided:
  - a. This is not prohibited by law or regulation.
  - b. When CAS 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor’s report.
- 1.13 The following examples are circumstances in which an Other Matter paragraph may be necessary:
  - a. Law or regulation may require the auditor to communicate about planning and scoping matters in the report, or the auditor may consider it necessary to communicate about such matters – Paragraph A9 of CAS 706.
  - b. The possible effect of an inability to obtain sufficient appropriate audit evidence due to a limitation on the scope of the audit imposed by management is pervasive, but the auditor is unable to withdraw from an engagement – Paragraph A10 of CAS 706.

- c. Law or regulation may require or permit the auditor to elaborate on matters that provide further explanation of the auditor's responsibilities in the audit of the financial statements or of the report – Paragraph A11 of CAS 706.
  - d. Where an entity prepares more than one set of financial statements (see [Chapter 1, Section D, Q&A 1](#)) – Paragraph A13 of CAS 706.
  - e. Where an entity prepares financial statements for a specific use in accordance with a general purpose framework (see [Chapter 1, Section B, Q&A 1](#)) – Paragraph A14 of CAS 706.
  - f. Where an entity did not comply with laws and regulations and the auditor considered withdrawal from an engagement, but withdrawal from an engagement is not possible, describing the non-compliance with laws and regulations – Paragraph A18 of CAS 250.
  - g. Where in certain circumstances, withdrawal from the audit may not be possible if the auditor is required by law or regulation to continue the audit engagement – Paragraph A14 of CAS 705.
  - h. Where the auditor may conclude that a material misstatement exists that affects the prior period financial statements on which the predecessor auditor had previously reported without modification – Paragraph A12 of CAS 710.
  - i. When the report on an entity's complete set of financial statements includes an Other Matter paragraph and these matters have an impact on the audit of the single financial statement or the specific element of a financial statement – Paragraph A27 of CAS 805.
  - j. Where the entity is a Canadian reporting issuer and management's certifications regarding internal control contained in regulatory filings and the documentation that supports those filings may differ from the written assessment that management provides – Paragraph A83 of Section 5925.
  - k. When supplementary information can be, but is not clearly differentiated from the audited financial statements (see [Chapter 6, Q&A 1](#)).
  - l. When the auditor is engaged to report on the appropriateness and proper application of the adjustments to the comparative information (see [Chapter 4, Section B, Q&A 5](#)).
- 1.14 When the auditor includes an Other Matter paragraph in the report, the auditor shall include the paragraph within a separate section with the heading "Other Matter," or other appropriate heading – Paragraph 11 of CAS 706.

- 1.15 An Other Matter paragraph does not deal with circumstances where the auditor has other reporting responsibilities that are in addition to the auditor's responsibility under the CASs to report on the financial statements, or where the auditor has been asked to perform and report on additional specified procedures, or to express an opinion on specific matters. Paragraphs 42–44 of CAS 700 contain requirements for other reporting responsibilities – Paragraph A12 of CAS 706.

## **2 What are the reporting implications when reporting on financial statements prepared in accordance with a financial reporting framework that permits or requires a change in accounting policy to be applied prospectively?**

- 2.1 In some circumstances, an applicable financial reporting framework may permit or require a change in accounting policy to be applied prospectively. When an entity applies a requirement prospectively in preparing its financial statements, comparative information is not adjusted to achieve comparability with the current period.
- 2.2 It is a matter of professional judgment whether an auditor would include an Emphasis of Matter paragraph in the auditor's report to draw users' attention to a lack of comparability between the current period's figures and the comparative information arising from prospective application of requirements of a financial reporting framework. In certain cases, a lack of comparability arising from prospective application of a requirement will not be fundamental to users' understanding of the financial statements. However, in other cases, for example when the lack of comparability has a pervasive or material effect on the financial statements, the auditor may consider it necessary to draw users' attention to it.

## CHAPTER 4

# Comparative Information, Modified Opinions and Implications of Predecessor Auditors

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## A Comparative information

### 1 What is the difference between “comparative financial statements” and “corresponding figures”?

- 1.1 The Glossary of Terms in the *CPA Canada Handbook – Assurance* defines the terms “comparative information”, “corresponding figures” and “comparative financial statements” as follows:
  - a. Comparative information – The amounts and disclosures included in the financial statements in respect of one or more prior periods in accordance with the applicable financial reporting framework.
  - b. Corresponding figures – Comparative information where amounts and other disclosures for the prior period are included as an integral part of the current period financial statements, and are intended to be read only in relation to the amounts and other disclosures relating to the current period (referred to as “current period figures”). The level of detail presented in the corresponding amounts and disclosures is dictated primarily by its relevance to the current period figures.
  - c. Comparative financial statements – Comparative information where amounts and other disclosures for the prior period are included for comparison with the financial statements of the current period but, if audited, are referred to in the auditor’s opinion. The level of information included in those comparative financial statements is comparable with that of the financial statements of the current period.
- 1.2 Most financial reporting frameworks require that comparative information be presented. However, a financial reporting framework may not indicate whether the comparative information should be in the form of corresponding figures or comparative financial statements.
- 1.3 The following example illustrates the difference between corresponding figures and comparative financial statements with respect to property, plant and equipment presented in accordance with Canadian accounting standards for private enterprises. Property, Plant & Equipment, paragraph 3061.24 in Part II of the *CPA Canada Handbook – Accounting* states that for each major category of property, plant and equipment there should be disclosure of the cost and accumulated amortization, including the amount of any write-down.
  - a. When the comparative information is corresponding figures, the relevant information for the comparative period may only include the net book value for each major category of property, plant and equipment.



- b. When the comparative information is comparative financial statements, the relevant information for the comparative period would include all the information required by the applicable financial accounting framework (e.g., the cost and accumulated depreciation including the amount of any write-downs, as well as net book value for each major category of property, plant and equipment).
- 1.4 There are two different approaches to reporting on comparative information:
  - a. For corresponding figures, the auditor's opinion on the financial statements refers to the current period only.
  - b. For comparative financial statements, the auditor's opinion refers to each period for which financial statements are presented.
- 1.5 Paragraph 2 of CAS 710 explains that the approach to be adopted is often specified by law or regulation but may also be specified in terms of engagement. In Canada, securities regulators have specified that for reporting issuers the auditor's opinion must refer to each period for which financial statements are presented. Therefore, the comparative financial statements reporting approach is required. For most other entities, the auditor's opinion on the financial statements refers to the current period only and the auditor uses the corresponding figures reporting approach, unless the auditor is otherwise specifically engaged to report on each period for which financial statements are presented.
- 1.6 Paragraphs 7-9 of CAS 710 require the auditor to perform the same audit procedures for both approaches (e.g., to determine whether the financial statements include the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified.)

## **2 What are the reporting implications when a change in accounting policy is applied retrospectively?**

- 2.1 Comparative information may be restated for the retrospective application of an accounting policy. Retrospective application is applying a new accounting policy to transactions, other events and conditions as if the policy had always been applied.
- 2.2 For example, paragraph 22 of IAS 8 in Part I of the *CPA Canada Handbook- Accounting* and paragraph 1506.13 in Part II of the *CPA Canada Handbook- Accounting* state that the entity shall adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

- 2.3 If, in the auditor's judgment, the change in accounting policy is fundamental to the users' understanding of the financial statements, paragraph 8 of CAS 706 requires that an Emphasis of Matter paragraph be included in the report to draw users' attention to the disclosures in the financial statements describing the retrospective application of the new accounting policy. (Refer to [Chapter 3 – Emphasis of Matter and Other Matter Paragraphs](#).)

### **3 What are the reporting implications when the financial reporting framework is not prescriptive as to the required comparative information?**

- 3.1 A financial reporting framework may not be prescriptive as to the required comparative information. For example, *General Standards of Financial Statement Presentation*, paragraph 1400.12 in Part II of the *CPA Canada Handbook – Accounting* requires financial statements to be prepared on a comparative basis, unless comparative information is not meaningful or the standards set out in Part II of the *CPA Canada Handbook – Accounting* permit otherwise. Accordingly, in preparing financial statements in accordance with the financial reporting framework, management will use judgment when determining the approach to use in reporting on the comparative information to include with respect to specific amounts or items in the financial statements.
- 3.2 In the circumstance where the financial reporting framework is not prescriptive as to the required comparative information, the auditor needs to consider whether the nature and extent of comparative information meet the respective definition of comparative information in the Glossary of Terms for the audit reporting approach adopted in the terms of the engagement. For example, for the comparative financial statements approach, the auditor would consider whether the comparative information the entity includes in the financial statements would be comparable with that of the financial statements of the current period.
- 3.3 Accordingly, where the financial reporting framework is not prescriptive as to the required comparative information, it is possible that the financial statements of two identical entities, prepared in accordance with the same financial reporting frameworks, could include different comparative information depending on the audit reporting approach adopted.

#### **4 What are the reporting implications when comparative financial statements are prepared in accordance with a financial reporting framework that permits certain information to be included for the current period only and does not require it to be included in the comparative information?**

- 4.1 In some circumstances, an applicable financial reporting framework may permit an entity not to provide comparative information. For example, paragraph 84 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* states that an entity is not required to include comparative information relating to disclosures which that paragraph requires for each class of provision. Further, paragraph 40C of IAS 1 *Presentation of Financial Statements* states that: “When an entity is required to present an additional statement of financial position in accordance with paragraph 40A of IAS 1, it must disclose the information required by paragraphs 41-44 of IAS 1 and IAS 8 [*Accounting Policies, Changes in Accounting Estimates and Errors*]. However, it need not present the related notes to the opening statement of financial position as at the beginning of the preceding period.”
- 4.2 The definition of comparative financial statements in paragraph 6(c) of CAS 710 is premised on the definition of “comparative information” in paragraph 6(a), which states that comparative information is “the amounts and disclosures included in the financial statements in respect of one or more periods in accordance with the applicable financial reporting framework.” Accordingly, if financial statements are prepared in accordance with an applicable financial reporting framework and do not contain comparative information because of permissions in the financial reporting framework to omit that information, the auditor may nevertheless be able to report on all periods presented without modification of the opinion.

#### **5 What are the reporting implications when the prior period financial statements were not audited?**

- 5.1 Paragraphs 14 and 19 of CAS 710 state that, if the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph in the report that the comparative information is unaudited.
- 5.2 In cases where prior period financial statements were subject to a review engagement, comparative information is referred to as unaudited in the report.

## B Modified opinions

### 1 What are the reporting implications when a misstatement is discovered after the date of the report but before the financial statements are issued?

1.1 See [Chapter 2, Q&A 4](#).

### 2 What are the reporting implications when a misstatement is discovered after the date of the report and after the financial statements are issued?

2.1 Paragraph 14 of CAS 560 states that if, after the date of the report and after the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the report, may have caused the auditor to amend the report, the auditor shall:

- a. Discuss the matter with management and, where appropriate, those charged with governance;
- b. Determine whether the financial statements need amendment; and if so,
- c. Inquire how management intends to address the matter in the financial statements.

2.2 If management amends the financial statements,<sup>15</sup> the auditor would need to determine whether law, regulation or the financial reporting framework prohibits:

- a. management from restricting the amendment of the financial statements to the effects of the subsequent event or events causing that amendment; and
- b. those responsible for approving the financial statements from restricting their approval to that amendment.

In Canada, Parts II to IV of the *CPA Canada Handbook—Accounting* and Canadian public sector accounting standards, for example, do not prohibit management from restricting the amendment of the financial statements to the effects of the subsequent event or events causing that amendment, or those responsible for approving the financial statements from restricting their approval to that amendment. When it is not clear whether such a prohibition exists, the auditor would consider common practice. With respect to IFRSs in Part I of the *CPA Canada Handbook—Accounting*, research by CPA Canada accounting standards staff indicates that global practice is not consistent.

<sup>15</sup> If management does not amend the financial statements, then refer to paragraph 17 of CAS 560.

- 2.3 The auditor has three methods available for dating the report when the financial statements are amended after the financial statements have been issued:
- Method 1: Issue a new report as required by paragraph 15(c)(ii) of CAS 560 (new report date - necessary when law, regulation or the financial reporting framework prohibits restricting the amendment).
  - Method 2: Issue an amended report as required by paragraph 15(d) of CAS 560 (amended report date for additional date restricted to that amendment - often referred to in practice as dual dating).
  - Method 3: Issue a new report, with a new report date, with an Emphasis of Matter paragraph or Other Matter paragraph as required by paragraph 12(b) of CAS 560 (new updated report date with an Emphasis of Matter paragraph or Other Matter paragraph restricting procedures to that amendment).
- 2.4 For Method 1, as discussed in paragraph 2.3(a) of this Q&A, the auditor, in accordance with paragraph 16 of CAS 560, shall include in the new report an Emphasis of Matter paragraph referring to a note to the financial statements that more extensively discusses the reason for the amendment of the previously issued financial statements and an Other Matter paragraph referring to the earlier report provided by the auditor (collectively: Emphasis of Matter - Amended Financial Statements). The following is an example of an Emphasis of Matter - Amended Financial Statements paragraph referring to a note to the financial statements and to the earlier report provided:

*Emphasis of Matter - Amended Financial Statements*

We draw attention to Note X to the financial statements, which describes that the financial statements that we originally reported on March 31, 20X1 have been amended and describes the matter that gave rise to the amendment of the financial statements. Our opinion is not modified in respect of this matter.

- 2.5 For Method 2, as discussed in paragraph 2.3(b) of this Q&A, the auditor, in accordance with paragraph 16 of CAS 560, shall include in the amended report an Emphasis of Matter paragraph referring to a note to the financial statements that more extensively discusses the reason for the amendment of the previously issued financial statements and an Other Matter paragraph referring to the earlier report provided by the auditor (collectively: Emphasis of Matter - Amended Financial Statements). The following is an example of an Emphasis of Matter - Amended Financial Statements paragraph referring to a note to the financial statements and to the earlier report provided:

*Emphasis of Matter - Amended Financial Statements*

We draw attention to Note X to the financial statements, which describes that the financial statements that we originally reported on March 31, 20X1 have been amended and describes the matter that gave rise to the amendment of the financial statements. Our opinion is not modified in respect of this matter.

The following is an example of how to include an additional date restricted to that amendment as required by paragraph 12(a) of CAS 560:

March 31, 20X1, except as to Note Y, which is as of April 15, 20X1.

- 2.6 For Method 3 as discussed in paragraph 2.3(c) of this Q&A, the auditor, in accordance with paragraph 16 of CAS 560, shall include in the new report an Emphasis of Matter paragraph referring to a note to the financial statements that more extensively discusses the reason for the amendment of the previously issued financial statements and an Other Matter paragraph referring to the earlier report provided by the auditor (collectively: Emphasis of Matter - Amended Financial Statements). Also in accordance with paragraph 12(b) of CAS 560, the auditor shall include in those above-noted Emphasis of Matter - Amended Financial Statements paragraphs a statement that conveys that the auditor's procedures with regard to subsequent events are restricted solely to the amendment of the financial statements as described in the relevant note to the financial statements. The following is an example of how to have a new report date with an Emphasis of Matter - Amended Financial Statements paragraph referring to a note in the financial statements discussing the reasons for the amendment, the earlier report provided and that the auditor's procedures are restricted to that amendment:

*Emphasis of Matter - Amended Financial Statements*

We draw attention to Note X to the financial statements, which describes that the financial statements that we originally reported on March 31, 20X1 have been amended and describes the matter that gave rise to the amendment of the financial statements. Our opinion is not modified in respect of this matter. Our procedures with respect to events subsequent to March 31, 20X1, are restricted solely to that amendment to the financial statements.

- 2.7 For all three methods, as discussed in paragraph 2.3 of this Q&A, the auditor, as required by paragraph 15 of CAS 560, shall:
- a. carry out the audit procedures necessary in the circumstances on the amendment
  - b. review the steps taken by management to ensure that anyone in receipt of the previously issued financial statements together with the report thereon is informed of the situation.

### **3 What are the reporting implications when an unresolved issue in the prior period remains unresolved?**

#### **Corresponding figures reporting approach**

- 3.1 If the report on the prior period financial statements included a qualified opinion, a disclaimer of opinion or an adverse opinion, and the matter which gave rise to the modification is unresolved, the auditor shall, in accordance with paragraph 11 of CAS 710, modify the opinion on the current period's financial statements.
- 3.2 In the Basis for Modification paragraph in the report, the auditor shall either:
- a. refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material or
  - b. explain that the auditor's opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures.
- 3.3 See [Illustrative Reports 1](#) and [5](#) for circumstances in paragraph 3.2(a) of this Q&A and [Illustrative Report 9](#) for the circumstance in paragraph 3.2(b) of this Q&A.
- 3.4 Additional reporting implications for public sector entities are discussed in paragraph 7.7 of [Q&A 7](#) in this chapter.

#### **Comparative financial statements reporting approach**

- 3.5 Paragraph A9 of CAS 710 indicates that, when reporting under the comparative financial statement approach, the auditor may express a qualified opinion or an adverse opinion, disclaim an opinion, or include an Emphasis of Matter paragraph with respect to one or more periods, while expressing a different auditor's opinion on the financial statements of the other period. An illustrative

example of the report, if the auditor is required to report on both the current and the prior period financial statements and the prior period included a modified opinion and the matter giving rise to the modification is unresolved, is contained in Illustration 4 of the Appendix in CAS 710.

#### **4 What are the reporting implications when an unresolved issue in the prior period is resolved?**

##### **Corresponding figures reporting approach**

- 4.1 There are no reporting implications. If the report on the prior period financial statements, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is resolved and properly accounted for or disclosed in the financial statements of the current period in accordance with the applicable financial reporting framework, the opinion on the current period need not refer to the previous modification in accordance with paragraph A3 of CAS 710.

##### **Comparative financial statements reporting approach**

- 4.2 When the report on the prior period financial statements, as previously issued, included a qualified opinion, a disclaimer of opinion or an adverse opinion, and the matter which gave rise to the modification is resolved and properly accounted for or disclosed in the financial statements of the current period (e.g., correction of the comparative information) in accordance with the applicable financial reporting framework, the opinion does not require a modification relating to the comparative information. Paragraph 16 of CAS 710 requires that the auditor disclose the substantive reasons for the different opinion in an Other Matter paragraph.

#### **5 What are the reporting implications when there is a restatement of comparative financial information and the entity:**

- a. restates and reissues the prior period financial statements?**
- b. restates the comparative information in the current period financial statements but does not reissue the prior period financial statements?**

- 5.1 Comparative information may be restated for a number of reasons (e.g., to reflect the correction of an error or the retrospective application of an accounting policy (See [Section A, Q&A 2](#)). Depending on various factors



(e.g., the nature of the restatement and whether the issuance of the financial statements for a subsequent period is imminent), the entity may adopt either of two possible approaches to reflect the restatement:

- a. restate and reissue the prior period financial statements, or
- b. restate the comparative financial information in the current period financial statements but not reissue the prior period financial statements.

#### **a. Restate and reissue the prior period financial statements**

- 5.2 If the auditor has audited the restated prior period financial statements and the current period financial statements (assuming no other comparative information is being presented), no modification of the opinion is required.

The reissued report on the restated prior period financial statements shall include an Emphasis of Matter paragraph discussing the restatement. Refer to [Q&A 1 of Chapter 3 – Emphasis of Matter and Other Matter Paragraphs in the report](#).

If a predecessor auditor was involved, the predecessor may be engaged by management to reissue the report on the restated prior period financial statements. Refer to [Section C, Q&A 3](#) in this chapter regarding the reporting implications of the involvement of a predecessor auditor.

#### **b. Restate the comparative information in the current period financial statements**

- 5.3 The reporting implications will depend on what the auditor has been engaged to report on. The type of engagement may be affected by such things as the needs of the users of the financial statements, including the requirements of securities regulators (who may require that there be an audit opinion on all periods presented). For example:

- a. The auditor may be engaged to report on the appropriateness and proper application of the restatement but not to opine on the restated comparative information taken as a whole. This does not mean, however, that the comparative information is described as being unaudited. This is the corresponding figures reporting approach as defined in [Section A, Q&A 1](#) in this chapter.
- b. The auditor may be engaged to report on the comparative information included in the current period financial statements in addition to the current period financial statements. This is the comparative financial statement reporting approach as defined in [Section A, Q&A 1](#) in this chapter.

- c. The auditor may not be engaged to report on anything. This is the corresponding figures reporting approach defined in [Section A, Q&A 1](#) in this chapter.

### Corresponding figures reporting approach

- 5.4 When the auditor is engaged to report on the appropriateness and proper application of the adjustments to the comparative information, as discussed in paragraph 5.3(a) of this Q&A, the auditor may do so by including an Other Matter paragraph reporting on the proper application of the restatement. Paragraph A2 of CAS 710 explains that the auditor's opinion does not refer to the corresponding figures because the auditor's opinion is on the current period financial statements as a whole, including the corresponding figures. Paragraph 8 of CAS 706 requires the auditor to include an Emphasis of Matter paragraph in the report if the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to the users' understanding of the financial statements. If the circumstance is fundamental to the users' understanding, the auditor is required to include an Emphasis of Matter paragraph to alert readers that the corresponding figures in the financial statements have been restated. The following are examples of the Emphasis of Matter and Other Matter paragraphs:

#### *Emphasis of Matter*

We draw attention to Note X to the financial statements, which explains that certain comparative information presented for [period ended] has been restated. Our opinion is not modified in respect of this matter.

#### *Other Matter (or other appropriate heading)*

As part of our audit of the financial statements for the year ended [end of current reporting period], we also audited the adjustments that were applied to restate the certain comparative information for the year ended [end of prior reporting period]. In our opinion, such adjustments are appropriate and have been properly applied.

- 5.5 Paragraph A6 of CAS 710 states that when prior period financial statements that are misstated have not been amended and a report has not been reissued, but the corresponding figures have been properly restated or appropriate disclosures have been made in the current period financial statements, the report may

include an Emphasis of Matter paragraph describing the circumstances and referring, where relevant, to disclosures that fully describe the matter that can be found in the financial statements.

- 5.6 See [Illustrative Report 16](#) for an example of the Other Matter paragraph that includes the extensions discussed in paragraphs 5.4 and 5.5 of this Q&A.

### Comparative financial statements reporting approach

- 5.7 If the auditor is engaged to report on the current period's financial statement, as discussed in paragraph 4(b) of this Q&A, paragraph 8 of CAS 706 requires the auditor to include an Emphasis of Matter paragraph in the report if the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the practitioner's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. If the circumstance is fundamental to users' understanding, the auditor is required to include an Emphasis of Matter paragraph to alert readers that the comparative information in the financial statements has been restated, along the following lines:

*Emphasis of Matter*

We draw attention to Note X to the financial statements, which explains that certain comparative information presented for the [period ended] has been restated. Our opinion is not modified in respect of this matter.

Such wording is consistent with other Illustrative Reports in this Guide (see, for example, [Illustrative Report 15](#)).

An Other Matter paragraph is not necessary to describe the audit of a restatement because when reporting using the comparative financial statements reporting approach the opinion covers all periods presented, including the comparative information.

If a predecessor auditor was involved, the predecessor auditor may be engaged to report on the comparative information included in the current period financial statements. Refer to [Section C, Q&A 3](#) regarding the reporting implications of the involvement of a predecessor auditor.

## 6 What are the reporting implications when there is a restatement of comparative information and an opening statement of financial position is presented?

- 6.1 Some financial reporting frameworks require that an entity present a third statement of financial position (i.e., opening balance sheet) as at the beginning of the preceding period in addition to the minimum comparative financial statements required by the financial reporting framework (e.g., see paragraph 40A of IAS 1, *Presentation of Financial Statements* when an entity applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements and the retrospective application, retrospective restatement or the reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period).
- 6.2 When the auditor is engaged to report on the appropriateness and proper application of the adjustments to the comparative information, the auditor may do so by including an Other Matter paragraph reporting on the appropriateness and proper application of the restatement. The following is an example of an Other Matter paragraph:

*Other Matter* (or other appropriate heading)

As part of our audit of the financial statements for the year ended December 31, 20X2, we also audited the adjustments that were applied to restate certain comparative information for the year ended December 31, 20X0, (not presented herein) which are used to derive the January 1, 20X1, balance sheet. In our opinion, such adjustments are appropriate and have been properly applied.

- 6.3 When a predecessor auditor is involved, refer to [Section C, Q&A 3](#) in this chapter.

## 7 What are the reporting implications of financial statements containing a correction in accordance with paragraph PS 2120.31 in the CPA Canada Handbook – Public Sector Accounting?

- 7.1 Accounting Changes, paragraph PS 2120.31 in the *CPA Canada Handbook – Public Sector Accounting* (PSA), states that an issue raised with the government (i.e., the entity) by its auditor in one period but not corrected by the entity until a subsequent period is not an error for purposes of PS 2120. The issue would be accounted for in the period in which the correction is made.

- 7.2 In other circumstances, errors are corrected retrospectively in both the *PSA Handbook* and financial reporting frameworks in the *CPA Canada Handbook - Accounting*.
- 7.3 As a result of the provision in paragraph PS 2120.31, entities applying the *PSA Handbook* are not permitted to restate comparative information for the effects of an error that was raised with the entity by its auditor in an earlier reporting period.
- 7.4 This Q&A discusses the implications for the report in the circumstances when paragraph PS 2120.31 is applicable. The following assumptions are used as a basis for presenting the reporting implications in this Q&A:
- a. As at March 31, 20X1, the entity did not accrue a liability (e.g., related to a program expense) for which the effect is material to the financial statements. The matter was identified by the entity's auditor and was raised with the entity.
  - b. The entity decided not to correct the error in 20X1, so that the financial statements of the entity for the year ended March 31, 20X1, (i.e., 20X1 financial statements) were materially misstated because expenses and liabilities were understated by a material amount.
  - c. In 20X2, the entity corrected the error in accordance with paragraph PS 2120.31 by recording the expense and the liability in the current year's figures in its financial statements for the year ended March 31, 20X2 (i.e., 20X2 financial statements).
  - d. When reporting on the 20X1 financial statements, the auditor issued an auditor's report containing a qualified opinion because the financial statements contained a material departure from Canadian public sector accounting standards for that year.
- 7.5 The current year's figures in the 20X2 financial statements do not contain a departure from Canadian public sector accounting standards in relation to the error itself because the error has been corrected in accordance with paragraph PS 2120.31. However, the prior year's figures (i.e., comparative information) contained in these financial statements remain materially misstated.
- 7.6 The form of the auditor's report on the 20X2 financial statements will depend on the audit reporting approach in respect of comparative information.
- 7.7 Under the corresponding figures reporting approach, the auditor would refer to the requirements in paragraph 11 of CAS 710. Under paragraph 11 of CAS 710, if the report on the prior period, as previously issued, included a qualified opinion,

a disclaimer of opinion or an adverse opinion, and the matter which gave rise to the modification is unresolved, the auditor shall modify the opinion on the current period's financial statements. Because the comparative information in the 20X2 financial statements (i.e., the financial statements for the year ended March 31, 20X1) is still materially misstated, the matter has not been resolved for the purposes of paragraph 11 of CAS 710 even though the entity correctly accounted for the error in the current year's figures in the 20X2 financial statements for financial reporting purposes in accordance with paragraph PS 2120.31. Accordingly, the auditor would apply paragraph 11(b) of CAS 710 and modify the opinion because, notwithstanding the correction of the error, there are effects on the comparability of the current year's figures and the corresponding figures. See [Illustrative Report 8](#) in this chapter for an example of a report that is qualified because of the effects of a matter on the comparability of the current period's figures and the corresponding figures resulting from application of paragraph PS 2120.31.

- 7.8 Under the comparative financial statements reporting approach, the auditor would refer to the requirements in paragraph 15 of CAS 710. Under paragraph 15 of CAS 710, the auditor would express an opinion on financial statements for each period presented; the opinion on the current year's figures in the 20X2 financial statements would be an unmodified opinion because the entity correctly accounted for the error in accordance with paragraph PS 2120.31. However, the opinion on the prior year's figures of the 20X2 financial statements (i.e., the financial statements for the year ended March 31, 20X1) would continue to be modified as discussed in paragraph 5 of this Q&A. This can be compared with the opinion on the current year's figures in the 20X2 financial statements under the corresponding figures reporting approach, as discussed in paragraph 7 of this Q&A, which is qualified because of the effects on the comparability of the current year's figures and the corresponding figures.

## C Implications of predecessor auditors

This section addresses reporting implications when the prior period financial statements were audited by a predecessor auditor. Where necessary to improve the clarity of this Q&A, the word “successor” has been added to the text of requirements and application material in the CASs.

### 1 What are the reporting implications for the successor’s report when prior period financial statements were audited by a predecessor auditor?

#### Reference to a predecessor auditor – Corresponding figures reporting approach

- 1.1 Paragraph 13 of CAS 710 indicates that if the financial statements of the prior period were audited by a predecessor auditor and the successor auditor is not prohibited by law or regulation from referring to the predecessor report on the corresponding figures *and decides to do so*, the successor auditor shall state in an Other Matter paragraph in the successor report:
  - a. That the financial statements of the prior period were audited by the predecessor auditor;
  - b. The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and
  - c. The date of that report.
- 1.2 Accordingly, under the corresponding figures reporting approach, the successor auditor may, but is not required to, include an Other Matter paragraph referring to a predecessor auditor. Illustrative Reports in this chapter dealing with the corresponding figures reporting approach when a predecessor auditor is involved ([Illustrative Reports 2, 6, 10, 14](#) and [20](#)) assume the successor auditor has decided to refer to the predecessor auditor and, therefore, include such an Other Matter paragraph.

#### Reference to a predecessor auditor – Comparative financial statements reporting approach

- 1.3 Paragraph 17 of CAS 710 indicates that if the financial statements of the prior period were audited by a predecessor auditor and the predecessor auditor’s report on the prior period’s financial statements is not reissued with the current period financial statements, in addition to expressing an opinion on the current period’s financial statements, the successor auditor shall state in an Other Matter paragraph:

- a. That the financial statements of the prior period were audited by a predecessor auditor;
  - b. The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and
  - c. The date of that report.
- 1.4 Accordingly, under the comparative financial statements reporting approach, the successor auditor is required to include an Other Matter paragraph referring to a predecessor auditor when the predecessor auditor does not reissue their report.

### Reference to a predecessor auditor – Other Matter paragraph

- 1.5 If the predecessor's report on the prior period's financial statements is not reissued with the financial statements, the successor's report will include an Other Matter paragraph referring to a predecessor auditor. Consequently, the successor's report under the comparative financial statements reporting approach will often be identical to the report under the corresponding figures reporting approach with respect to reference to the predecessor auditor when the successor auditor decides to refer to the predecessor's report under the corresponding figures reporting approach.
- 1.6 When the predecessor's report on the prior period's financial statements is reissued, the successor auditor may, but is not required to, include an Other Matter paragraph referring to a predecessor auditor. Consequently, the successor auditor under the comparative financial statements reporting approach has a choice with respect to reference to the predecessor auditor similar to the successor auditor under the corresponding figures reporting approach. As a result, the successor's report under the comparative financial statements reporting approach may be identical to the report under the corresponding figures reporting approach with respect to reference to the predecessor auditor in this circumstance.
- 1.7 The following is an example of an Other Matter paragraph referring to the predecessor auditor included in the successor's report:

*Other Matter* (or other appropriate heading)  
The financial statements for the year ended [end of prior reporting period] were audited by another auditor who expressed an unmodified opinion on those financial statements on [date].



- 1.8 The Other Matter paragraph referred to in paragraph 1.7 of this Q&A may need to be revised when the comparative information in the current period financial statements has been restated from the prior period financial statements, and the predecessor auditor has not reported on the restated comparative information or the restated financial statements. The following is an example of an Other Matter paragraph referring to the predecessor auditor in this circumstance (bold text has been used to identify differences in the wording from the example in paragraph 1.7 of this Q&A):

*Other Matter* (or other appropriate heading)  
The financial statements for the year ended [end of prior reporting period] **(prior to the adjustments that were applied to restate certain comparative information explained in Note X)** were audited by another auditor who expressed an unmodified opinion on those financial statements on [date].

- 1.9 Illustrative Reports in this chapter dealing with the comparative financial statements reporting approach when a predecessor auditor is involved ([Illustrative Reports 4, 8, 12, 16, 17, 18](#) and [22](#)) assume the predecessor report on the prior period's financial statements is not reissued with the current period financial statements and, therefore, include such an Other Matter paragraph.

## 2 What are the reporting implications when there is a restatement of comparative information and the entity:

- a. **restates and reissues the prior period financial statements?**
  - b. **restates the comparative information in the current period financial statements?**
- 2.1 Comparative information may be restated for a number of reasons, (e.g., to reflect the correction of an error, the retrospective application of an accounting policy (refer to [Section A, Q&A 2](#)) or reclassification of amounts). Depending on various factors (e.g., the nature of the restatement and whether the issuance of financial statements for a subsequent period is imminent), the entity may adopt either of two possible approaches to reflect the restatement:
- a. restate and reissue the prior period financial statements, or
  - b. restate the comparative information in the current period financial statements.

- 2.2 Irrespective of the approach followed by the entity, the successor auditor is required by paragraph 6 of CAS 510 to obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements, including determining whether the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, have been restated. However, the implications for the successor's report on the current period financial statements will depend on the approach followed by the entity and the respective involvement of the successor auditor and the predecessor auditor.

If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, paragraph 10 of CAS 510 requires the auditor to express a qualified opinion or disclaim an opinion on the financial statements, as appropriate, in accordance with CAS 705. Paragraph A8 of CAS 510 explains that this may result in one of the following modifications to the opinion in the report:

- a. A qualified opinion or a disclaimer of opinion, as is appropriate in the circumstances; or
- b. Unless prohibited by law or regulation, an opinion which is qualified or disclaimed, as appropriate, regarding the results of operations, and cash flows, where relevant, and unmodified regarding financial position.

See the Illustrative Report in the Appendix of CAS 510.

#### **a. Restate and reissue the prior period financial statements**

- 2.3 When the entity restates the prior period financial statements, the predecessor auditor, in some circumstances, may be engaged to reissue the report on the restated prior period financial statements or, in rare circumstances, the successor auditor will be engaged to audit the restated prior period financial statements.
- 2.4 If the predecessor auditor does reissue the report on the restated prior period financial statements, there is no requirement for the successor auditor to make reference in the report on the current year's financial statements to the fact that the comparative information in the current year's financial statements has been restated unless the successor auditor believes the restatement is fundamental to the users' understanding of the financial statement in accordance with paragraph 8 of CAS 706. However, the successor auditor is required to include an Other Matter paragraph in accordance with paragraph 17 of CAS 710 to state:
- a. that the financial statements of the prior period were audited by a predecessor auditor;

- b. the type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and
  - c. the date of that report.
- 2.5 Paragraph A12 of CAS 710 states that the predecessor auditor may be unable or unwilling to reissue the report on the restated prior period financial statements. An Other Matter paragraph of the report may indicate that the predecessor auditor reported on the financial statements of the prior period before amendment.
- 2.6 If the successor auditor has audited the restated prior period financial statements and the current period financial statements (assuming no other comparative financial information is presented) this Q&A does not apply because there is no predecessor auditor involved. (Refer to [Section B, Q&A 5](#) in this chapter)

**b. Restate the comparative information in the current period financial statements**

- 2.7 The reporting implications will depend on the respective involvement of the successor auditor and the predecessor auditor. This involvement may be affected by such things as the needs of the users of the financial statements, including the requirements of securities regulators (who may require that there be an audit opinion on all periods presented), and the willingness of the respective auditor to be involved. For example:
- a. The successor auditor may be engaged to report on the appropriateness and proper application of the restatement, but neither the successor auditor nor the predecessor auditor is engaged to opine on the restated comparative information taken as a whole; (This does not, however, mean that the comparative information is described as being unaudited.)
  - b. The predecessor auditor may be engaged to report on the comparative information included in the current period financial statements and the successor auditor engaged to report only on the current period financial statements, other than the comparative information.
  - c. The successor auditor may be engaged to report on the comparative information included in the current period financial statements in addition to the current period financial statements. Refer to [Section B, Q&A 5](#) in this chapter; there are no implications for the predecessor auditor in this case.

### Successor auditor engaged to report on appropriateness and proper application of the restatement

- 2.8 If the successor auditor is engaged to report on the appropriateness and proper application of the restatement, the successor auditor may do so by
- a. including an Other Matter paragraph reporting on the appropriateness and proper application of the restatement. In that situation, the successor auditor may also refer to the predecessor auditor as having audited the comparative information before the restatement, as discussed in [paragraphs 1.5-1.9 of Q&A 1](#) of this section.
    - Under the corresponding figures reporting approach, there is no requirement under professional standards for the successor auditor to explain in their report that the appropriateness and proper application of the restatement to the comparative information has been audited. However, the successor auditor may be engaged to report on the appropriateness and proper application of the restatement.
    - Under the comparative financial statements reporting approach, when the predecessor auditor does not reissue their report on the prior period financial statements, paragraph A12 of CAS 710 states that if the successor auditor is engaged to audit and obtains sufficient appropriate audit evidence to be satisfied as to the appropriateness of the amendment, the report may include an Other Matter paragraph.
  - b. Paragraph 8 of CAS 706 requires the auditor to include an Emphasis of Matter paragraph in the report if the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the practitioner's judgment, is of such importance that it is fundamental to the users' understanding of the financial statements. If the circumstance is fundamental to the users' understanding, the auditor is required to include an Emphasis of Matter paragraph to alert readers that the corresponding figures in the financial statements have been restated.

The following is an example of the Emphasis of Matter paragraph and Other Matter paragraphs included in the successor's report referring to the predecessor auditing the prior year and the successor reporting on the appropriateness and proper application of the restatement:

*Emphasis of Matter*

We draw attention to Note X to the financial statements, which explains that certain comparative information presented for the [period ended] has been restated. Our opinion is not modified in respect of this matter.

*Other Matter (or other appropriate heading)*

The financial statements for the year ended [end of the prior reporting period], excluding the adjustments that were applied to restate certain comparative information were audited by another auditor who expressed an unmodified opinion on those financial statements on [date].

As part of our audit of the financial statements for the year ended [end of current reporting period], we also audited the adjustments applied to restate certain comparative information presented. In our opinion, such adjustments are appropriate and have been properly applied.

- c. When the successor auditor has not been engaged to perform any other procedures related to the comparative information or the prior period financial statements audited by the predecessor auditor, the successor auditor may determine it necessary to clearly communicate this fact. The successor auditor may consider it appropriate to extend the Other Matter paragraph to clarify the successor auditor's involvement in the comparative information. The following is an example of the Other Matter paragraph to clarify the successor auditor's involvement in the comparative information:

*Other Matter (or other appropriate heading)*

The financial statements for the year ended [end of the prior reporting period], excluding the adjustments that were applied to restate certain comparative information as described in Note X were audited by another auditor who expressed an unmodified opinion on those financial statements on [date].

As part of our audit of the financial statements for the year ended [end of current reporting period], we also audited the adjustments applied to restate certain comparative information presented. In our opinion, such adjustments are appropriate and have been properly applied.

Extension to the Other Matter paragraph from c) above:

Other than with respect to the adjustments that were applied to restate certain comparative information, we were not engaged to audit, review, or apply any procedures to the financial statements for the year ended [end of prior reporting period]. Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.

- d. See [Illustrative Report 16](#) for an example of the Other Matter paragraph that includes the extensions discussed in paragraphs 2.8(b) and 2.8(c) of this Q&A.

### Predecessor auditor engaged to report on comparative information

- 2.9 When the predecessor auditor is engaged to report on the comparative information included in the current period financial statements and the successor auditor is engaged to report only on the current period financial statements, other than the comparative information:
- a. The successor auditor and the predecessor auditor would need to consider how to clearly describe their respective responsibilities with respect to the entity's current period figures and comparative information included in the current period financial statements.
  - b. The predecessor auditor would describe what financial information comprises the comparative information on which the predecessor auditor is reporting. The predecessor auditor also may decide to include an Other Matter paragraph describing the information in the current period financial statements that has been audited by the successor auditor. The following is an example of such an Other Matter paragraph for financial statements prepared in accordance with IFRSs:

*Other Matter* (or other appropriate heading - Predecessor Auditor's Report)  
 The financial statements, which comprise the statement of financial position as at [end of current reporting period], the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year ended [end of current reporting period], and notes to the financial statements, including a summary of significant accounting policies, were audited by another auditor who expressed an unmodified opinion on [date].

- c. Since the predecessor auditor is issuing an opinion on the comparative information, the successor auditor is not required to add an Other Matter paragraph referring to the predecessor auditor. However, to clarify the respective responsibilities of the successor auditor and the predecessor auditor, the successor auditor may wish to include an Other Matter paragraph stating that the comparative information, including Note X, which describes the restatement of the comparative information, was audited by the predecessor auditor. The following is an example of such an Other Matter paragraph for financial statements prepared in accordance with IFRSs:

*Other Matter* (or other appropriate heading – Successor Auditor)  
The accompanying comparative information, which comprises the statement of financial position as at [end of prior reporting period], the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, including Note X, which explains that certain comparative information has been restated, were audited by another auditor who expressed an unmodified opinion on [date].

### Successor auditor engaged to report on comparative information

- 2.10 There are no reporting implications because there is no predecessor auditor involvement.

## 3 What are the reporting implications when there is a restatement of comparative information and an opening statement of financial position is presented?

- 3.1 Some financial reporting frameworks require that an entity present a third statement of financial position (i.e., opening balance sheet) as at the beginning of the preceding period in addition to the minimum comparative financial statements required by the financial reporting framework (e.g., see paragraph 40A of IAS 1, *Presentation of Financial Statements* when an entity applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements and the retrospective application, retrospective restatement, or the reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period). In this circumstance, the opening balance sheet reflects the statement of financial position as at the end of the prior period, audited by the predecessor auditor, subsequent to the adjustments applied to restate the financial information.

- 3.2 If there is no predecessor auditor involved, refer to [Section B, Q&A 6](#) in this chapter.

### Predecessor auditor audited prior period financial statements

- 3.3 The following assumptions are used as a basis for examples of the reporting implications discussed in paragraphs 3.4 and 3.5 of this Q&A in respect of the first two reporting approaches discussed in [paragraph 2.7 of Q&A 2](#) in this section:
- The financial statements are for the year ended December 31, 20X2, with comparative information for the year ended December 31, 20X1.
  - The predecessor auditor audited the financial statements for the years ended December 20X1 and before.
  - The successor auditor audited the December 20X2 financial statements.
  - The December 20X1 comparative information has been restated and an opening balance sheet as at January 1, 20X1, derived from the statement of financial position as at December 31, 20X0, is presented.

### Successor auditor is engaged to report on the appropriateness and proper application of the restatement

- 3.4 The following are examples of references to the reporting on the appropriateness and proper application of the restatement, applying the assumptions in paragraph 3.3 of this Q&A. Adjustments arising from such application were applied to restate the December 20X1 comparative information, and derive the opening balance sheet as at January 1, 20X1. (Bold text has been used to identify differences in the wording from the examples included in [paragraph 1.7 of Q&A 1](#) in this section, [paragraph 6.2 of Q&A 6 in Section B](#) and [paragraph 2.8\(c\) of Q&A 2](#) in this section):
- a. When the successor auditor's report includes the Other Matter paragraph referred to in [paragraph 1.7 of Q&A 1](#):

*Other Matter* (or other appropriate heading)

**The financial statements for the years ended December 31, 20X1, and 20X0 (not presented herein but from which the comparative information as at January 1, 20X1 has been derived), excluding the adjustments that were applied to restate certain comparative information as described in Note X** were audited by another auditor who expressed an unmodified opinion on those financial statements on [dates] **respectively**.



- b. When the successor auditor's report includes the extension of the Other Matter paragraph referred to [paragraph 6.2 of Section B, Q&A 6](#):

As part of our audit of the financial statements for the year ended December 31, 20X2, we also audited the adjustments that were applied to restate certain comparative information as described in Note X, for the year ended December 31, 20X1, **and to derive the statement of financial position as at January 1, 20X1**. In our opinion, such adjustments are appropriate and have been properly applied.

- c. When the successor auditor's report includes the extension of the Other Matter paragraph referred to in [paragraph 2.8\(c\) of Q&A 2](#) in this Section:

Other than with respect to the adjustments that were applied to restate certain comparative information, we were not engaged to audit, review, or apply any procedures to the financial statements for the years ended December 31, 20X1, **and 20X0, or to the statement of financial position as at January 1, 20X1**. Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.

See [Illustrative Report 17](#) for an example of the report in this circumstance.

### Predecessor auditor engaged to report on comparative information

- 3.5 When the predecessor auditor is engaged to report on the comparative information included in the current period financial statements and the successor auditor is engaged to report only on the current period financial statements, other than the comparative information, as discussed in paragraph 2.9 of this chapter:
- When the predecessor auditor's report contains the Other Matter paragraph referred to in paragraph 2.9(b) of this chapter, the Other Matter paragraph would be unchanged.
  - When the successor auditor's report includes the Other Matter paragraph referred to in paragraph 2.9(c) of this chapter (bold text has been used to identify differences in the wording from the example included in paragraph 2.9(c) of this chapter):

*Other Matter* (or other appropriate heading)

The comparative information, which comprises the statements of financial position as at [end of prior reporting period] and **[beginning of prior reporting period]**, the statement of comprehensive income, statement of changes in equity, and statement of cash flows of the Company for the year then ended **[end of prior reporting period]**, and notes to the financial statements, including a summary of significant accounting policies, including Note X, which explains that certain comparative information has been restated, were audited by another auditor who expressed an unmodified opinion on [date].

See [Illustrative Report 18](#) for an example of the reports in this circumstance.

### **Predecessor auditor audited financial statements relating to the opening statement of financial position only**

- 3.6 The following assumptions are used as a basis for examples of the reporting implications discussed in paragraph 3.7 of this Q&A in respect of the third reporting approach discussed in [paragraph 2.7 of Q&A 2](#) in this Section:
- The financial statements are for the year ended December 31, 20X2, with comparative information for the year ended December 31, 20X1.
  - The predecessor auditor audited the financial statements for the years ended December 20X0 and before.
  - The successor auditor audited the December 20X2 and December 20X1 financial statements.
  - The December 20X1 comparative information has been restated and an opening balance sheet as at January 1, 20X1, derived from the statement of financial position as at December 31, 20X0, is presented.
- 3.7 The following are examples of references to reporting on the appropriateness and proper application of the restatement, applying the assumptions in paragraph 3.6 of this Q&A. Adjustments arising from such application were applied to restate the December 20X1 comparative information, and derive the opening balance sheet as at January 1, 20X1. (Bold text has been used to identify differences in the wording from the examples included in [paragraph 1.7 of Q&A 1](#) in this section, [paragraph 6.2 of Q&A 6 in Section B](#) and [paragraph 2.8\(c\) of Q&A 2](#) in this section):

- a. When the successor's report includes the Other Matter paragraph referred to in [paragraph 1.7 of Q&A 1](#):

*Other Matter* (or other appropriate heading)

The financial statements for the year ended December 31, 20X0 (**not presented herein but from which the comparative information as at January 1, 20X1 has been derived**), excluding the adjustments that were applied to restate certain comparative information were audited by another auditor who expressed an unmodified opinion on those financial statements on [date].

- b. When the successor's report includes the extension of the Other Matter paragraph referred to in [paragraph 6.2 of Section B, Q&A 6](#):

As part of our audit of the financial statements for the year ended December 31, 20X2, we also audited the **adjustments that were applied to restate certain comparative information as described in Note X, for the year ended December 31, 20X1, and** to derive the statement of financial position as at January 1, 20X1. In our opinion, such adjustments are appropriate and have been properly applied.

- c. If the successor's report includes the extension of the Other Matter paragraph referred to in [paragraph 2.8\(c\) of Q&A 2](#) in this Section:

Other than with respect to the adjustments that were applied to restate certain comparative information, we were not engaged to audit, review, or apply any procedures to the financial statements for the year ended December 31, 20X0, **or to the statement of financial position as at January 1, 20X1**. Accordingly, we do not express an opinion or any other form of assurance on the financial statements for the year ended December 31, 20X0, **or the statement of financial position as at January 1, 20X1**, taken as a whole.

## Introduction to illustrative reports

1. The Illustrative Reports reflect specific requirements in CAS 705 relating to the form of report containing a modification of opinion, as follows:
  - a. Paragraph 16 of CAS 705 states that when the auditor modifies the opinion, the auditor shall use the heading “Qualified Opinion,” “Adverse Opinion,” or “Disclaimer of Opinion,” as appropriate, for the Opinion section. Paragraph 25 of CAS 705 states that when the auditor expresses a qualified or adverse opinion, the auditor shall amend the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor’s opinion required by paragraph 28(d) of CAS 700 to include the word “qualified” or “adverse”, as appropriate.
  - b. Paragraph 17 of CAS 705 states that when the auditor expresses a qualified opinion due to a material misstatement in the financial statements, the auditor shall state that, in the auditor’s opinion, “except for the effects of the matter(s) described in the Basis for Qualified Opinion section”:
    - When reporting in accordance with a fair presentation framework, the accompanying financial statements present fairly, in all material respects [...] in accordance with [the applicable financial reporting framework], or
    - When reporting in accordance with a compliance framework, the accompanying financial statements have been prepared, in all material respects, in accordance with [the applicable financial reporting framework].

When the modification arises from an inability to obtain sufficient appropriate audit evidence, the auditor shall use the corresponding phrase “except for the *possible* effects of the matter(s) described in the Basis for Qualified Opinion section”.

- c. Paragraph 21 of CAS 705 states that if there is a material misstatement of the financial statements that relates to specific amounts in the financial statements (including quantitative disclosures), the auditor shall include in the Basis for Qualified Opinion section a description and quantification of the financial effects of the misstatements, unless impracticable. If it is not practicable to quantify the financial effects, the auditor is required to so state in this section. In these Illustrative Reports, it has been assumed that it is practicable to quantify the financial effects of the misstatements in such circumstances.
- d. Paragraph 22 of CAS 705 states that if there is a material misstatement of the financial statements that relates to qualitative disclosures, the auditor shall include in the Basis for Opinion section an explanation of how the disclosures are misstated. Illustrative Reports do not address this circumstance.
- e. Paragraph 23 of CAS 705 contains requirements when there is a material misstatement of the financial statements that relates to non-disclosure of information required to be disclosed. Illustrative Reports do not address this circumstance.

- f. Paragraph 24 of CAS 705 states that if the modification results from an inability to obtain sufficient appropriate audit evidence, the auditor shall include in the Basis for Opinion section the reasons for that inability. Illustrative Reports do not address this circumstance.
  - g. Paragraph 26 of CAS 705 states that when the auditor disclaims an opinion on the financial statements, the report shall not include the elements required by paragraphs 28(b) and 28(d) of CAS 700. Those elements are:
    - i. A reference to the section of the auditor's report where the auditor's responsibilities are described; and
    - ii. A statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion.Illustrative Reports do not address this circumstance.
2. Although there is no specific requirement in CAS 710 to do so, the Basis for Qualified Opinion sections in the illustrations of reports in CAS 710 contain a reference to the auditor's opinion in the prior year. For example, these paragraphs use wording such as: "Our audit opinion on the financial statements for the period ended ... was modified accordingly." or "This caused us to modify our audit opinion on the financial statements relating to that period." Both practices have been followed in the Illustrative Reports. Similarly, when a predecessor auditor is involved, the equivalent wording is reflected as: "The predecessor auditor's opinion on the financial statements for the period ended ... was modified accordingly." or "This caused the predecessor auditor to modify the audit opinion on the financial statements relating to that period."
  3. When a predecessor auditor is involved, Illustrative Reports also include, for information purposes, an excerpt from the predecessor report on the prior year's financial statements to assist understanding of the wording of the report on the current year's financial statements.

For the purposes of the illustrative reports in this chapter, the following circumstances are assumed, unless indicated otherwise:

Topic and circumstance	Reference to guidance
<b>Type of Entity</b>	
<ul style="list-style-type: none"> <li>The entity under audit is an entity other than a listed entity.</li> </ul>	Chapter 9
<b>Subject Matter</b>	
<ul style="list-style-type: none"> <li>The auditor reports on a complete set of financial statements.</li> </ul>	Chapter 5, Section A, Q&A 2
<b>Financial Reporting Framework</b>	
<ul style="list-style-type: none"> <li>The applicable financial reporting framework is a fair presentation financial reporting framework.</li> </ul>	Chapter 1, Section D, Q&A 1
<ul style="list-style-type: none"> <li>The auditor has determined that the general purpose financial reporting framework is acceptable.</li> </ul>	Chapter 1, Section B, Q&A 2
<b>Ethical Requirements</b>	
<ul style="list-style-type: none"> <li>The auditor has decided to only make reference to relevant ethical requirements in Canada that apply to the audit.</li> </ul>	Chapter 10
<b>Going Concern</b>	
<ul style="list-style-type: none"> <li>The auditor has determined that the going concern basis of accounting is relevant.</li> </ul>	Chapter 11
<ul style="list-style-type: none"> <li>No material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.</li> </ul>	
<b>Key Audit Matters</b>	
<ul style="list-style-type: none"> <li>The auditor is not required, and has otherwise not decided, to communicate key audit matters, in accordance with CAS 701.</li> </ul>	
<b>Other Information</b>	
<ul style="list-style-type: none"> <li>The auditor has determined that there is no other information (i.e., the requirements of CAS 720 do not apply)</li> </ul>	Chapter 14
<b>Responsibility of Management and Those Charged with Governance</b>	
<ul style="list-style-type: none"> <li>The terms of the audit engagement do not include any additional management responsibilities in addition to those in paragraph 6(b) of CAS 210.</li> </ul>	Chapter 2, Q&A 3
<ul style="list-style-type: none"> <li>Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.</li> </ul>	

Topic and circumstance	Reference to guidance
<b>Auditor's Responsibilities</b>	
<ul style="list-style-type: none"><li>• The description of the auditor's responsibilities are included within the body of the auditor's report (refer to paragraph 41 of CAS 700).</li></ul>	
<b>Group Audit</b>	
<ul style="list-style-type: none"><li>• The audit is not a group audit engagement (i.e., the requirements of CAS 600 do not apply).</li></ul>	
<b>Other Reporting Responsibilities</b>	
<ul style="list-style-type: none"><li>• The auditor has no other reporting responsibilities required under law or regulation.</li></ul>	

## Summary of reports arising from circumstances addressed in CAS 710 – Comparative Information – Corresponding Figures and Comparative Financial Statements

Topic and circumstance	Corresponding Figures Reporting Approach – Same Auditor	Corresponding Figures Reporting Approach – Predecessor Auditor	Comparative Financial Statements Reporting Approach – Same Auditor	Comparative Financial Statements Reporting Approach – Predecessor Auditor
<b>Unresolved qualification from a prior year</b>				
Departure from financial reporting	Matter affects current year <a href="#">Illustration 1</a> page 122	Matter affects current year <a href="#">Illustration 2</a> page 125	Matter affects both years <a href="#">Illustration 3</a> page 128	Matter affects both years <a href="#">Illustration 4</a> page 131
Scope limitation	Matter affects current year <a href="#">Illustration 5</a> page 135	Matter affects current year <a href="#">Illustration 6</a> page 138	Matter affects both years <a href="#">Illustration 7</a> page 141	Matter affects both years <a href="#">Illustration 8</a> page 144
	Matter affects comparability of current and prior years <a href="#">Illustration 9</a> page 148	Matter affects comparability of current and prior years <a href="#">Illustration 10</a> page 151	Matter affects prior year only <a href="#">Illustration 11</a> page 156	Matter affects prior year only <a href="#">Illustration 12</a> page 160
<b>Restated comparative information</b>				
Unmodified opinion in prior year	<a href="#">Illustration 13</a> page 161	<a href="#">Illustration 14</a> page 165	<a href="#">Illustration 15</a> page 169	<a href="#">Illustration 16</a> page 173  Opening statement of financial position <a href="#">Illustration 17</a> page 178  Predecessor auditor reporting on comparative information <a href="#">Illustration 18</a> page 183



Topic and circumstance	Corresponding Figures Reporting Approach - Same Auditor	Corresponding Figures Reporting Approach - Predecessor Auditor	Comparative Financial Statements Reporting Approach - Same Auditor	Comparative Financial Statements Reporting Approach - Predecessor Auditor
Qualified opinion in prior year	<a href="#">Illustration 19 page 189</a>	<a href="#">Illustration 20 page 190</a>	<a href="#">Illustration 21 page 192</a>	<a href="#">Illustration 22 page 196</a>
<b>Misstatement discovered after financial statements issued</b>				
Financial statements reissued	<a href="#">Illustration 23 page 200</a>	N/A	<a href="#">Illustration 24 page 204</a>	N/A
<b>Illustration 25:</b> Corresponding Figures Reporting Approach - Same Auditor; Qualification arising from correction of financial statements in accordance with paragraph PS 2120.31 - Effects of the Matter on the Comparability of the Current and Prior Years <a href="#">page 208</a>				

## Unresolved qualification in a prior year arising from a departure from the financial reporting framework

### Illustration 1: Corresponding figures reporting approach Effects of the matter on the current year are material – same auditor for prior year

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

#### Financial reporting framework:

- The financial reporting framework is Canadian accounting standards for private enterprises.
  - Refer to [Chapter 1, Section A](#).

#### Prior year:

- The financial statements of the prior year were audited by the current auditor.
- The auditor's report on the prior year, as previously issued, included a qualified opinion arising from a departure from Canadian accounting standards for private enterprises.

#### Reporting implications:

- The matter giving rise to the modification of the opinion in the prior year is unresolved.
  - Refer to [Section B, Q&A 3](#) of this chapter.
- The effects of the matter giving rise to the modification of the opinion in the current year are material.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

**Qualified Opinion**

We have audited the financial statements of ABC Company (the Entity), which comprise the balance sheet as at December 31, 20X1, and the statements of income, retained earnings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, **except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report**, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 20X1, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

**Basis for Qualified Opinion**

**As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements, which constitutes a departure from Canadian accounting standards for private enterprises. This is the result of a decision taken by management at the start of the preceding financial year (20X0). Based on the straight-line method of depreciation and annual rates of 5% for the building and 20% for the equipment, the loss for the year should be increased by \$xxx in 20X1 and \$xxx in 20X0, property, plant and equipment should be reduced by accumulated depreciation of \$xxx in 20X1 and \$xxx in 20X0, and retained earnings should be decreased by \$xxx in 20X1 and \$xxx in 20X0. Our audit opinion on the financial statements for the year ended December 31, 20X0 was modified because of the effects of this departure from Canadian accounting standards for private enterprises.**

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 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 **qualified** audit opinion.

*Responsibilities of Management and Those Charged with Governance for the Financial Statements*  
Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, 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.

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.

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

*Auditor's Responsibilities for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]

## Illustration 2: Corresponding figures reporting approach Effects of the matter on the current year are material – predecessor auditor for prior year

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

### Financial reporting framework:

- The financial reporting framework is Canadian accounting standards for private enterprises.
  - Refer to [Chapter 1, Section A](#).

### Prior year:

- The financial statements of the prior year were audited by a predecessor auditor.
  - Refer to [Section C, Q&A 1](#) of this chapter – The successor auditor has decided to add an Other Matter paragraph.
- The predecessor’s report on the prior year, as previously issued, included a qualified opinion arising from a departure from Canadian accounting standards for private enterprises.

### Reporting implications:

- The matter giving rise to the modification of the opinion in the prior year is unresolved.
  - Refer to [Section B, Q&A 3](#) of this chapter.
- The effects of the matter giving rise to the modification of opinion in the current year are material.

Excerpt from the predecessor report on the financial statements of ABC Company for the year ended December 31, 20X0:

#### *Basis for Qualified Opinion*

As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements, which constitutes a departure from Canadian accounting standards for private enterprises. This is the result of a decision taken by management at the start of this financial year. Based on the straight-line method of depreciation and annual rates of 5% for the building and 20% for the equipment, the loss for the year should be increased by \$xxx, property, plant and equipment should be reduced by accumulated depreciation of \$xxx, and retained earnings should be decreased by \$xxx.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

**Qualified Opinion**

We have audited the financial statements of ABC Company (the Entity), which comprise the balance sheet as at December 31, 20X1, and the statements of income, retained earnings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, **except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report**, the accompanying financial statements present fairly, in all material respects, the financial position of Entity as at December 31, 20X1, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

**Basis for Qualified Opinion**

**As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements, which constitutes a departure from Canadian accounting standards for private enterprises. This is the result of a decision taken by management at the start of the preceding financial year (20X0). Based on the straight-line method of depreciation and annual rates of 5% for the building and 20% for the equipment, the loss for the year should be increased by \$xxx in 20X1 and \$xxx in 20X0, property, plant and equipment should be reduced by accumulated depreciation of \$xxx in 20X1 and \$xxx in 20X0, and retained earnings should be decreased by \$xxx in 20X1 and \$xxx in 20X0. The predecessor auditor's opinion on the financial statements for the year ended December 31, 20X0 was modified because of the effects of this departure from Canadian accounting standards for private enterprises.**

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 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 **qualified** audit opinion.

**Other Matter**

**The financial statements for the year ended December 31, 20X0 were audited by another auditor who expressed a qualified opinion on those financial statements on March 31, 20X1 for the reasons described in the *Basis for Qualified Opinion* section.**

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, 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.

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.

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

*Auditor's Responsibilities for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]

### **Illustration 3: Comparative financial statements reporting approach Matter affects both years – same auditor for prior year**

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

#### **Financial reporting framework:**

- The financial reporting framework is Canadian accounting standards for private enterprises.
  - Refer to [Chapter 1, Section A](#).

#### **Prior year:**

- The financial statements of the prior year were audited by the current auditor.
- The auditor's report on the prior year, as previously issued, included a qualified opinion arising from a departure from Canadian accounting standards for private enterprises.

#### **Reporting implications:**

- The matter giving rise to the modification of the opinion in the prior year is unresolved.
  - Refer to [Section B, Q&A 3](#) of this chapter.
- The effects of the matter giving rise to the modification of the opinion on the current year are material.

This Illustrative Report using a comparative financial statement reporting approach can be contrasted with the equivalent Illustrative Report using the corresponding figures reporting approach (see [Illustrative Report 1](#) in this chapter). A reference to the modified audit opinion for the prior year is not necessary under the comparative financial statements reporting approach because the auditor's opinion refers to each period for which financial statements are presented.



## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

**Qualified Opinion**

We have audited the financial statements of ABC Company (the Entity), which comprise the balance sheets as at December 31, 20X1 **and 20X0**, and the statements of income, retained earnings and cash flows for the **years** then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, **except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report**, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 20X1 **and 20X0**, and its results of operations and its cash flows for the **years** then ended in accordance with Canadian accounting standards for private enterprises.

**Basis for Qualified Opinion**

**As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements, which constitutes a departure from Canadian accounting standards for private enterprises. This is the result of a decision taken by management at the start of the preceding financial year (20X0). Based on the straight-line method of depreciation and annual rates of 5% for the building and 20% for the equipment, the loss for the year should be increased by \$xxx in 20X1 and \$xxx in 20X0, property, plant and equipment should be reduced by accumulated depreciation of \$xxx in 20X1 and \$xxx in 20X0, and retained earnings should be decreased by \$xxx in 20X1 and \$xxx in 20X0.**

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 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 **qualified** audit opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, 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.

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.

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

*Auditor's Responsibility for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]

### **Illustration 4: Comparative financial statements reporting approach Matter affects both years – predecessor auditor for prior year**

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

#### **Financial reporting framework:**

- The financial reporting framework is Canadian accounting standards for private enterprises.
  - Refer to [Chapter 1, Section A](#).

#### **Prior year:**

- The financial statements of the prior year were audited by a predecessor auditor.
  - Refer to [Section C, Q&A 1](#) of this chapter – an Other Matter paragraph is required.
- The predecessor report on the prior year, as previously issued, included a qualified opinion arising from a departure from Canadian accounting standards for private enterprises.
- The predecessor’s report on the prior year’s financial statements is not reissued with the current year’s financial statements.

#### **Reporting implications:**

- The matter giving rise to the modification of the opinion in the prior year is unresolved.
  - Refer to [Section B, Q&A 3](#) of this chapter.
- The effects of the matter giving rise to the modification of opinion in the current year are material.

This Illustrative Report using a comparative financial statement reporting approach can be contrasted with the equivalent Illustrative Report using the corresponding figures reporting approach (see [Illustrative Report 2](#) in this chapter). A reference to the modified auditor’s opinion of the predecessor auditor for the prior year is necessary under the comparative financial statements reporting approach because the successor auditor’s opinion does NOT refer to each period for which financial statements are presented but rather refers to the predecessor auditor’s report where such modification is contained.

Excerpt from predecessor report on the financial statements of ABC Company for the year ended December 31, 20X0:

*Basis for Qualified Opinion*

As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements, which constitutes a departure from Canadian accounting standards for private enterprises. This is the result of a decision taken by management at the start of this financial year. Based on the straight-line method of depreciation and annual rates of 5% for the building and 20% for the equipment, the loss for the year should be increased by \$xxx, property, plant and equipment should be reduced by accumulated depreciation of \$xxx, and retained earnings should be decreased by \$xxx.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

**Qualified Opinion**

We have audited the financial statements of ABC Company (the Entity), which comprise the balance sheet as at December 31, 20X1, and the statements of income, retained earnings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, **except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report**, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 20X1, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

**Basis for Qualified Opinion**

**As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements, which constitutes a departure from Canadian accounting standards for private enterprises. This is the result of a decision taken by management at the start of the preceding financial year. Based on the straight-line method of depreciation and annual rates of 5% for the building and 20% for the equipment, the loss for the year should be increased by \$xxx in 20X1 and \$xxx in 20X0, property, plant and equipment should be reduced by accumulated depreciation of \$xxx in 20X1 and \$xxx in 20X0, and retained earnings should be decreased by \$xxx in 20X1 and \$xxx in 20X0. The predecessor auditor's opinion on the financial statements for the year ended December 31, 20X0 was modified because of the effects of this departure from Canadian accounting standards for private enterprises.**

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 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 **qualified** audit opinion.

**Other Matter**

**The financial statements for the year ended December 31, 20X0 were audited by another auditor who expressed a qualified opinion on those financial statements on March 31, 20X1 for the reasons described in the *Basis for Qualified Opinion* section.**

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, 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.

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.

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

*Auditor's Responsibilities for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]

## Unresolved qualification in a prior year arising from a scope limitation

### Illustration 5: Corresponding figures reporting approach Possible effects of the matter on the current year are material – same auditor for prior year

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

#### Financial reporting framework:

- The financial reporting framework is Canadian accounting standards for not-for-profit organizations.
  - Refer to [Chapter 1, Section A](#).

#### Prior year:

- The financial statements of the prior year were audited by the current auditor.
- The auditor's report on the prior year, as previously issued, included a qualified opinion arising from a scope limitation.

#### Reporting implications:

- The matter giving rise to the modification of the opinion in the prior year is unresolved.
  - Refer to [Section B, Q&A 3](#) of this chapter.
- The *possible* effects of the matter giving rise to the modification of the opinion in the current year are material.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

**Qualified Opinion**

We have audited the financial statements of ABC **Not-for-Profit** Organization (the Entity), which comprise the statement of financial position as at December 31, 20X1, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, **except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report**, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 20X1, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

**Basis for Qualified Opinion**

**In common with many not-for-profit organizations, the Entity derives revenue from fundraising activities the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the Entity. Therefore, we were not able to determine whether any adjustments might be necessary to fundraising revenue, excess of revenues over expenses, and cash flows from operations for the years ended December 31, 20X1 and 20X0, current assets as at December 31, 20X1 and 20X0, and net assets as at January 1 and December 31 for both the 20X1 and 20X0 years. Our audit opinion on the financial statements for the year ended December 31, 20X0 was modified accordingly because of the possible effects of this limitation in scope.**

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 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 **qualified** audit opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, 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.

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.

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

*Auditor's Responsibilities for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]

## Illustration 6: Corresponding figures reporting approach Possible effects of the matter on the current year are material – predecessor auditor for prior year

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

### Financial reporting framework:

- The financial reporting framework is Canadian accounting standards for not-for-profit organizations.
  - Refer to [Chapter 1, Section A](#).

### Prior year:

- The financial statements for the prior year were audited by a predecessor auditor.
  - Refer to [Section C, Q&A 1](#) of this chapter – The successor auditor has decided to add an Other Matter paragraph.
- The predecessor’s report on the prior year, as previously issued, included a qualified opinion arising from a scope limitation.

### Reporting implications:

- The matter giving rise to the modification of the opinion in the prior year is unresolved.
  - Refer to [Section B, Q&A 3](#) of this chapter.
- The *possible* effects of the matter giving rise to the modification of the opinion in the current year are material.

Excerpt from the predecessor’s report on the financial statements of ABC Not-for-Profit Organization (the Entity) for the year ended December 31, 20X1:

#### *Basis for Qualified Opinion*

In common with many not-for-profit organizations, the Entity derives revenue from fundraising activities the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the Entity. Therefore, we were not able to determine whether any adjustments might be necessary to fundraising revenue, excess of revenues over expenses, and cash flows from operations for the years ended December 31, 20X1 and 20X0, current assets as at December 31, 20X1 and 20X0, and net assets as at January 1 and December 31 for both the 20X1 and 20X0 years. Our audit opinion on the financial statements for the year ended December 31, 20X0 was modified accordingly because of the possible effects of this limitation in scope.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

**Qualified Opinion**

We have audited the financial statements of ABC Not-for-Profit Organization (the Entity), which comprise the statement of financial position as at December 31, 20X2, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, **except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report**, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 20X2, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

**Basis for Qualified Opinion**

**In common with many not-for-profit organizations, the Entity derives revenue from fundraising activities the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the Entity. Therefore, we were not able to determine whether any adjustments might be necessary to fundraising revenue, excess of revenues over expenses, and cash flows from operations for the years ended December 31, 20X2, current assets as at December 31, 20X2, and net assets as at January 1, 20X2 and December 31, 20X2. The predecessor auditor's opinion on the financial statements for the year ended December 31, 20X1 was modified accordingly because of the possible effects of this limitation in scope.**

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 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 **qualified** audit opinion.

**Other Matter**

**The financial statements for the year ended December 31, 20X1 were audited by another auditor who expressed a qualified opinion on those financial statements on March 31, 20X2 for reasons described in the *Basis for Qualified Opinion* section.**

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, 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.

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.

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

*Auditor's Responsibilities for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]

### **Illustration 7: Comparative financial statements reporting approach Matter affects both years – same auditor for prior year**

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

#### **Financial reporting framework:**

- The financial reporting framework is Canadian accounting standards for not-for-profit organizations.
  - Refer to [Chapter 1, Section A](#).

#### **Prior year:**

- The financial statements of the prior year were audited by the current auditor.
- The auditor's report on the prior year, as previously issued, included a qualified opinion arising from a scope limitation.

#### **Reporting implications:**

- The matter giving rise to the modification of the opinion in the prior year is unresolved.
  - Refer to [Section B, Q&A 3](#) of this chapter.
- The *possible* effects of the matter giving rise to the modification of the opinion are material.

This Illustrative Report using a comparative financial statement reporting approach can be contrasted with the equivalent Illustrative Report using the corresponding figures reporting approach (see [Illustrative Report 5](#) in this chapter). A reference to the modified audit opinion for the prior year is not necessary under the comparative financial statements reporting approach because the auditor's opinion refers to each period for which financial statements are presented.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

**Qualified Opinion**

We have audited the financial statements of ABC Not-for-Profit Organization (the Entity), which comprise the statement of financial position as at December 31, 20X1 **and 20X0**, and the statements of operations, changes in net assets and cash flows for the **years** then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, **except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report**, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 20X1 **and 20X0**, and its results of operations and its cash flows for the **years** then ended in accordance with Canadian accounting standards for not-for-profit organizations.

**Basis for Qualified Opinion**

**In common with many not-for-profit organizations, the Entity derives revenue from fundraising activities the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the Entity. Therefore, we were not able to determine whether any adjustments might be necessary to fundraising revenue, excess of revenues over expenses, and cash flows from operations for the years ended December 31, 20X1 and 20X0, current assets as at December 31, 20X1 and 20X0, and net assets as at January 1 and December 31 for both the 20X1 and 20X0 years.**

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 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 **qualified** audit opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, 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.

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.

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

*Auditor's Responsibilities for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]

### **Illustration 8: Comparative financial statements reporting approach Matter affects both years – predecessor auditor for prior year**

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

#### **Financial reporting framework:**

- The financial reporting framework is Canadian accounting standards for not-for-profit organizations.
  - Refer to [Chapter 1, Section A](#).

#### **Prior year:**

- The financial statements of the prior year were audited by a predecessor auditor.
  - Refer to [Section C, Q&A 1](#) of this chapter – an Other Matter paragraph is required
- The predecessor’s report on the prior year, as previously issued, included a qualified opinion arising from a scope limitation.
- The predecessor’s report on the prior year financial statements is not reissued with the current year’s financial statements.

#### **Reporting implications:**

- The matter giving rise to the modification of the opinion in the prior year is unresolved.
  - Refer to [Section B, Q&A 3](#) of this chapter.
- The *possible* effects of the matter giving rise to the modification of opinion are material.

This Illustrative Report using a comparative financial statement reporting approach can be contrasted with the equivalent Illustrative Report using the corresponding figures reporting approach (see [Illustrative Report 7](#) in this chapter). A reference to the modified auditor’s opinion of the predecessor auditor for the prior year is necessary under the comparative financial statements reporting approach because the successor auditor’s opinion does NOT refer to each period for which financial statements are presented but rather refers to the predecessor auditor’s report where such modification is contained.



Excerpt from the predecessor's report on the financial statements of ABC Not-for-Profit Organization (the Entity) for the year ended December 31, 20X1:

*Basis for Qualified Opinion*

In common with many not-for-profit organizations, the Entity derives revenue from fundraising activities the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Entity. Therefore, we were not able to determine whether any adjustments might be necessary to fundraising revenue, excess of revenues over expenses, and cash flows from operations for the years ended December 31, 20X1 and 20X0, current assets as at December 31, 20X1 and 20X0, and net assets as at January 1 and December 31 for both the 20X1 and 20X0 years. Our audit opinion on the financial statements for the year ended December 31, 20X1 was modified accordingly because of the possible effects of this limitation in scope.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

**Qualified Opinion**

We have audited the financial statements of ABC Not-for-Profit Organization (the Entity), which comprise the statement of financial position as at December 31, 20X2, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, **except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report**, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at **December 31, 20X2**, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

**Basis for Qualified Opinion**

**In common with many not-for-profit organizations, the Entity derives revenue from fundraising activities the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the Entity. Therefore, we were not able to determine whether any adjustments might be necessary to fundraising revenue, excess of revenues over expenses, and cash flows from operations for the year ended December 31, 20X2, current assets as at December 31, 20X2, and net assets as at January 1, 20X2 and December 31, 20X2. The predecessor auditor's opinion on the financial statements for the year ended December 31, 20X1 was modified accordingly because of the possible effects of this limitation in scope.**

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 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 **qualified** audit opinion.

**Other Matter**

**The financial statements for the year ended December 31, 20X1 were audited by another auditor who expressed a qualified opinion on those financial statements on March 31, 20X2 for reasons described in the *Basis for Qualified Opinion* section.**

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, 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.

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.

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

*Auditor's Responsibilities for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]

### **Illustration 9: Corresponding figures reporting approach Possible effects of the matter affect the comparability of the current and prior years - same auditor for prior year**

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

#### **Financial reporting framework:**

- The financial reporting framework is Canadian accounting standards for private enterprises.
  - Refer to [Chapter 1, Section A](#).
- The entity uses the indirect method for reporting cash flows from operating activities.

#### **Prior year:**

- The financial statements of the prior year were audited by the current auditor.
- The auditor's report on the prior year, as previously issued, included a qualified opinion arising from a scope limitation.

#### **Reporting implications:**

- The matter giving rise to the modification of the opinion in the prior year is unresolved.
  - Refer to [Section B, Q&A 3](#) of this chapter.
- The *possible* effects of the matter giving rise to the modification of the opinion in the current year are material but are limited to the comparability of the current year's figures and the corresponding figures.
- The balance sheet as at December 31, 20X1 is fairly presented, in all material respects, in accordance with Canadian accounting standards for private enterprises. Accordingly, an unmodified opinion regarding the financial position as at December 31, 20X1 is considered appropriate in the circumstances. However, an opinion that is qualified regarding comparability of the results of operations and cash flows is considered appropriate in the circumstances.
  - Refer to [Section B, Q&A 5](#) of this chapter regarding opening balances.
- Law or regulation does not prohibit different opinions on the same set of financial statements (i.e., an opinion which is qualified or disclaimed regarding the results of operations, and cash flows and unmodified regarding financial position).

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

*Opinions*

We have audited the financial statements of ABC Company (the Entity), which comprise the balance sheet as at December 31, 20X1, and the statements of income, retained earnings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

***Unmodified Opinion on the Financial Position***

In our opinion, the accompanying balance sheet presents fairly, in all material respects, the financial position of the Entity as at December 31, 20X1 in accordance with Canadian accounting standards for private enterprises.

***Qualified Opinion on the Results of Operations and Cash Flows***

In our opinion, **except for the possible effects on comparative information of the matter described in the *Basis for Opinions, Including Basis for Qualified Opinion on the Results of Operations and Cash Flows* section of our report**, the accompanying statements of income, retained earnings and cash flows present fairly, in all material respects, the results of operations and cash flows of the Entity for the year ended December 31, 20X1 in accordance with Canadian accounting standards for private enterprises.

***Basis for Opinions, Including Basis for Qualified Opinion on the Results of Operations and Cash Flows***

**We were not able to observe the counting of the physical inventories at the beginning of 20X0 or satisfy ourselves concerning those inventory quantities by alternative means.**

**Since opening inventories affect the determination of the results of operations and cash flows, we were unable to determine whether adjustments to the results of operations and cash flows might be necessary for the year ended December 31, 20X0. Our audit opinion on the financial statements for the year ended December 31, 20X0 was modified accordingly because of the possible effects of this limitation in scope. As a result, our opinion on the current year's results of operations and cash flows is modified because of the possible effects of this matter on the comparability of the current period's figures and the comparative information.**

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 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 **unmodified opinion on the financial position and our qualified opinion on the results of operations and cash flows**.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, 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.

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.

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

*Auditor's Responsibilities for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]

### **Illustration 10: Corresponding figures reporting approach Possible effects of the matter affect the comparability of the current and prior years – predecessor auditor for prior year**

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

#### **Financial reporting framework:**

- The financial reporting framework is Canadian accounting standards for private enterprises.
  - Refer to [Chapter 1, Section A](#).
- The entity uses the indirect method for reporting cash flows from operating activities.

#### **Prior year:**

- The financial statements for the prior year were audited by a predecessor auditor.
  - Refer to [Section C, Q&A 1](#) of this chapter – The successor auditor has decided to add an Other Matter paragraph.
- The predecessor’s report on the prior year, as previously issued, included a qualified opinion arising from the scope limitation.

#### **Reporting implications:**

- The matter giving rise to the modification of the opinion in the prior year is unresolved.
  - Refer to [Section B, Q&A 3](#) of this chapter.
- The *possible* effects of the matter giving rise to the modification of the opinion in the current year are material but limited to the comparability of the current year’s figures and the corresponding figures.
- The balance sheet as at December 31, 20X2 is fairly presented, in all material respects, in accordance with Canadian accounting standards for private enterprises. Accordingly, an unmodified opinion regarding the financial position as at December 31, 20X2 is considered appropriate in the circumstances. However, an opinion that is qualified regarding comparability of the results of operations and cash flows is considered appropriate in the circumstances.
  - Refer to [Section B, Q&A 5](#) of this chapter regarding opening balances.
- Law or regulation does not prohibit different opinions on the same set of financial statements (i.e., an opinion which is qualified or disclaimed regarding the results of operations and cash flows and unmodified regarding financial position).

Excerpt from the predecessor report on the financial statements of ABC Company (the Entity) for the year ended December 31, 20X1:

*Qualified Opinion on the Financial Position*

In our opinion, except for the possible effects on the comparative information of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying balance sheet presents fairly, in all material respects, the financial position of the Entity as at December 31, 20X1 in accordance with Canadian accounting standards for private enterprises.

*Qualified Opinion on the Results of Operations and Cash Flows*

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying statements of income, retained earnings and cash flows present fairly, in all material respects, the results of operations and cash flows of the Entity for the year ended December 31, 20X1 in accordance with Canadian accounting standards for private enterprises.

*Basis for Qualified Opinion*

We were not able to observe the counting of the physical inventories at the beginning of the year or satisfy ourselves concerning those inventory quantities by alternative means. Since opening inventories affect the determination of the results of operations and cash flows, we were unable to determine whether adjustments to the results of operations and cash flows might be necessary for 20X1. Our audit opinion on the financial statements for the year ended December 31, 20X1 is modified accordingly because of the possible effects of this limitation in scope.



## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

*Opinions*

We have audited the financial statements of ABC Company (the Entity), which comprise the balance sheet as at December 31, 20X2, and the statements of income, retained earnings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

***Unmodified Opinion on the Financial Position***

In our opinion, the accompanying balance sheet presents fairly, in all material respects, the financial position of the Entity as at December 31, 20X2 in accordance with Canadian accounting standards for private enterprises.

***Qualified Opinion on the Results of Operations and Cash Flows***

In our opinion, except for the possible effects on the comparative information of the matter described in the *Basis for Opinions, Including Basis for Qualified Opinion on the Results of Operations and Cash Flows* section of our report, the accompanying statements of income, retained earnings and cash flows present fairly, in all material respects, the results of operations and cash flows of the Entity for the year ended December 31, 20X2 in accordance with Canadian accounting standards for private enterprises.

***Basis for Opinions, Including Basis for Qualified Opinion on the Results of Operations and Cash Flows***

**The predecessor auditor was not able to observe the counting of the physical inventories at the beginning of 20X1 or be satisfied concerning those inventory quantities by alternative means. Since opening inventories affect the determination of the results of operations and cash flows, the predecessor auditor was unable to determine whether adjustments to the results of operations and cash flows might be necessary for 20X1. The predecessor auditor's opinion on the financial statements for the year ended December 31, 20X1 was modified accordingly because of the possible effects of this limitation in scope. As a result, our opinion on the current year's results of operations and cash flows is modified because of the possible effects of this matter on the comparability of the current year's figures and the comparative information.**

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 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 **unmodified opinion on the financial position and our qualified audit opinion on the results of operations and cash flows.**

***Other Matter***

**The financial statements for the year ended December 31, 20X1 were audited by another auditor who expressed a modified opinion on March 31, 20X2 on the statement of financial position as at December 31, 20X1, and on the statements of income, retained earnings and cash flows for the year then ended, for the reasons described in the *Basis for Opinions, Including Basis for Qualified Opinion on the Results of Operations and Cash Flows* section.**

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, 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.

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.

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

*Auditor's Responsibilities for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]

### **Illustration 11: Comparative financial statements reporting approach Possible effects of the matter affect the prior year only - same auditor for prior year**

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

#### **Financial reporting framework:**

- The financial reporting framework is International Financial Reporting Standards.
  - Refer to [Chapter 1, Section A](#).
- The entity uses the indirect method for reporting cash flows from operating activities.

#### **Prior year:**

- The financial statements of the prior year were audited by the current auditor.
- The auditor's report on the prior year, as previously issued, included a qualified opinion arising from a scope limitation.

#### **Reporting implications:**

- The matter giving rise to the modification of the opinion in the prior year is unresolved.
  - Refer to [Section B, Q&A 3](#) of this chapter.
- The *possible* effects of the matter giving rise to the modification of the opinion are material.
- The statements of financial position as at December 31, 20X1 and 20X0 are fairly presented, in all material respects, in accordance with International Financial Reporting Standards. Accordingly, an unmodified opinion regarding the financial position as at December 31, 20X1 and 20X0 is considered appropriate in the circumstances. However, an opinion that is qualified regarding the financial performance and cash flows the year ended December 31, 20X0 and unmodified regarding the financial performance and cash flows for the year ended December 31, 20X1 is considered appropriate in the circumstances.
  - Refer to [Section B, Q&A 3](#) of this chapter.
- Law or regulation does not prohibit different opinions on the same set of financial statements (i.e., an opinion which is qualified or disclaimed regarding the results of operations, and cash flows and unmodified regarding financial position).

This Illustrative Report on IFRS financial statements using a comparative financial statement reporting approach can be contrasted with the equivalent Illustrative Report on ASPE financial statements using the corresponding figures reporting approach (see [Illustrative Report 9](#) in this chapter). A reference to the modified auditor's opinion for the prior year and for the possible effects on the comparability of the current period's figures and the

corresponding figures, as required by paragraph 11(b) of CAS 710 and included in [Illustrative Report 9](#), is not required under the comparative financial statements reporting approach because the auditor's opinion refers to each period for which financial statements are presented.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

*Opinions*

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

***Unmodified Opinion on the Financial Position, Financial Performance and Cash Flows***

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

***Qualified Opinion on the Financial Performance and Cash Flows***

In our opinion, **except for the possible effects of the matter described in the *Basis for Opinions, Including Basis for Qualified Opinion on the Financial Performance and Cash Flows* section of our report**, the accompanying statement of comprehensive income, statement of changes in equity and statement of cash flows present fairly, in all material respects, the financial performance and cash flows of the Entity for the year ended December 31, 20X0 in accordance with International Financial Reporting Standards (IFRSs).

***Basis for Opinions, Including Basis for Qualified Opinion on the Financial Performance and Cash Flows***

**Because we were appointed auditors of the Entity during 20X0, we were not able to observe the counting of the physical inventories at the beginning of that year (20X0) or satisfy ourselves concerning those inventory quantities by alternative means. Since opening inventories affect the determination of the financial performance and cash flows, we were unable to determine whether adjustments to the financial performance and cash flows might be necessary for 20X0.**

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 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 unmodified opinion on the financial position as at December 31, 20X1 and 20X0, and the financial performance and cash flows for the year ended December 31, 20X1, and our qualified opinion on the financial performance and cash flows for the year ended December 31, 20X0.**

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (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.

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.

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

*Auditor's Responsibilities for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]

## Illustration 12: Comparative financial statements reporting approach Possible effects of the matter affect prior year only – predecessor auditor for prior year

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

### Financial reporting framework:

- The financial reporting framework is Canadian accounting standards for private enterprises.
  - Refer to [Chapter 1, Section A](#).
- The entity uses the indirect method for reporting cash flows from operating activities.

### Prior year:

- The financial statements of the prior year were audited by a predecessor auditor.
  - Refer to [Section C, Q&A 1](#) of this chapter – an Other Matter paragraph is required.
- The predecessor’s report on the prior year, as previously issued, included a qualified opinion arising from a scope limitation.
- The predecessor’s report on the prior year financial statements is not reissued with the financial statements.

### Reporting implications:

- The matter giving rise to the modification of the opinion in the prior year is unresolved.
  - Refer to [Section B, Q&A 3](#) of this chapter.
- The *possible* effects of the matter giving rise to the modification of opinion are material.

The form of this Illustrative Report would be identical to [Illustrative Report 10](#) in this chapter.



## Financial statements with restated comparative information

### Illustration 13: Corresponding figures reporting approach Unmodified opinion in prior year – same auditor for prior year

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

#### Financial reporting framework:

- The financial reporting framework is Canadian accounting standards for private enterprises.
  - Refer to [Chapter 1, Section A](#).

#### Financial statements:

- A material misstatement has been discovered in the prior year financial statements on which an unmodified opinion has previously been expressed.
- The previously issued financial statements of the prior year are not amended (i.e., they were not restated and reissued). Rather the Entity has decided to restate the comparative information in the current year's financial statements.
- A note to the financial statements fully describes the restatement of the comparative information.

#### Prior year:

- The financial statements of the prior year were audited by the current auditor.

#### Reporting implications:

- The auditor has obtained sufficient appropriate audit evidence over the prior year's closing balances, including the restatement of the comparative information.
  - Refer to [Section B, Q&A 5](#) of this chapter.
- The auditor was not engaged to report, and has decided not to report, on the adjustments that were applied to restate the comparative information.
- The auditor has added an Emphasis of Matter (EOM) paragraph referring to the note to the financial statements that fully describes the restatement of the comparative information. Paragraph 9(a) of CAS 706 requires that an EOM paragraph include an appropriate heading that includes the term "Emphasis of Matter".

The auditor may consider it appropriate to report on the adjustments that were applied to restate comparative information or may be engaged to do so. In this case, the auditor may expand the “Emphasis of Matter – Restated Comparative Information” to include the following:

Note X explains the reason for the restatement and also explains the adjustments that were applied to restate **certain comparative information**.

As part of our audit of the financial statements for the year ended December 31, 20X1, we also audited the adjustments that were applied to restate certain of the comparative information presented for the year ended December 31, 20X0. In our opinion, such adjustments are appropriate and have been properly applied.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

*Opinion*

We have audited the financial statements of ABC Company (the Entity), which comprise the balance sheet as at December 31, 20X1, and the statements of income, retained earnings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 20X1, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

*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 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.

***Emphasis of Matter - Restated Comparative Information***

**We draw attention to Note X to the financial statements, which explains that certain comparative information presented for the year ended December 31, 20X0 has been restated. Our opinion is not modified in respect of this matter.**

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, 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.

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.

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

*Auditor's Responsibilities for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]

## Illustration 14: Corresponding figures reporting approach Unmodified opinion in prior year – predecessor auditor for prior year

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

### Financial reporting framework:

- The financial reporting framework is Canadian accounting standards for private enterprises.
  - Refer to [Chapter 1, Section A](#).

### Financial statements:

- A material misstatement has been discovered in the prior year financial statements on which an unmodified opinion has previously been expressed.
- The previously issued financial statements of the prior year are not amended (i.e., they were not restated and reissued). Rather, the Entity has decided to restate the comparative information.
- A note to the current year financial statements describes the restatement of the comparative information.

### Prior year:

- The financial statements for the prior year were audited by the predecessor auditor.
  - Refer to [Section C, Q&A 1](#) of this chapter – The successor auditor has decided to add an Other Matter (OM) paragraph.
- The predecessor’s report on the prior year’s financial statements is not reissued with the current year’s financial statements.

### Reporting implications:

- The successor auditor has obtained sufficient appropriate audit evidence over the prior year’s closing balances, including the restatement of the comparative information.
  - Refer to [Section C, Q&A 2](#) of this chapter.
- The successor auditor has added an Emphasis of Matter (EOM) paragraph referring to the note to the financial statements that fully describe the restatement of the comparative information.
- The successor auditor has decided to combine the Other Matter paragraph referring to the predecessor practitioner and the Emphasis of Matter paragraph referring to the restatement note into one paragraph entitled “Emphasis of Matter – Restated Comparative Information”. Paragraph 9(a) of CAS 706 requires that an EOM paragraph include an appropriate heading that includes the term “Emphasis of Matter”.

- Neither the successor auditor nor the predecessor auditor were engaged to provide an audit opinion on the restated comparative information taken as a whole.
- The successor auditor was not engaged to report, and has decided not to report, on the adjustments that were applied to restate the comparative information.

The successor auditor may consider it appropriate to report on the adjustments that were applied to restate comparative information or may be engaged to do so. In this case, the successor auditor may expand the “Emphasis of Matter - Restated Comparative Information” to include the following:

Note X explains the reason for the restatement and also explains the adjustments that were applied to restate **certain comparative information**.

As part of our audit of the financial statements for the year ended December 31, 20X1, we also audited the adjustments that were applied to restate certain of the comparative information presented for the year ended December 31, 20X0. In our opinion, such adjustments are appropriate and have been properly applied.

Other than with respect to the adjustments that were applied to restate certain comparative information, we were not engaged to audit, review, or apply any procedures to the financial statements for the year ended December 31, 20X0. Accordingly, we do not express an opinion or any other form of assurance on the financial statements for the year ended December 31, 20X0 taken as a whole.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

*Opinion*

We have audited the financial statements of ABC Company (the Entity), which comprise the balance sheet as at December 31, 20X1, and the statements of income, retained earnings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 20X1, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

*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 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.

***Emphasis of Matter - Restated Comparative Information***

**We draw attention to Note X to the financial statements, which explains that certain comparative information presented for the year ended December 31, 20X0 has been restated. The financial statements for the year ended December 31, 20X0 (prior to the adjustments that were applied to restate certain comparative information explained in note X) were audited by another auditor who expressed an unmodified opinion on those financial statements on March 31, 20X1. Our opinion is not modified in respect of this matter.**

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, 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.

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.

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

*Auditor's Responsibilities for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]



## Illustration 15: Comparative financial statements reporting approach Unmodified opinion in prior year – same auditor for prior year

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

### Type of Entity:

- ABC Company is a listed entity.
  - Refer to [Chapter 9](#).

### Financial reporting framework:

- The financial reporting framework is International Financial Reporting Standards.
  - Refer to [Chapter 1, Section A](#).

### Financial statements:

- A material misstatement has been discovered in the prior year financial statements on which an unmodified opinion has previously been expressed.
- The previously issued financial statements of the prior year are not amended (i.e., they are not restated and reissued). Rather, the Entity has decided to restate the comparative information in the current year's financial statements.
- A note to the financial statements fully describes the restatement of the comparative information.
- An opening statement of financial position has not been presented.

### Prior year:

- The financial statements of the prior year were audited by the current auditor.

### Reporting implications:

- The auditor has obtained sufficient appropriate audit evidence over the prior year's closing balances, including the restatement of the comparative information.
  - Refer to see [Section B, Q&A 5](#) of this chapter.
- The auditor has added an Emphasis of Matter paragraph referring to the note to the financial statements that fully describes the restatement of the comparative information.
  - Refer to [Chapter 2, Q&A 4](#).
- The auditor's opinion on the prior year's financial statements was unmodified even though it should have been modified because of the previously undiscovered material misstatement. The auditor's opinion on the comparative information included in the current period financial statements is also unmodified because the comparative information has been appropriately restated for the material misstatement and the

auditor has obtained sufficient appropriate audit evidence regarding the comparative information, including the restatement. Since both opinions are “unmodified” there is no reason to disclose the substantive reasons for the different opinions as the opinions are the same.

- The auditor has obtained part of the other information prior to the date of the auditor’s report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor’s report
  - Refer to [Chapter 14](#).

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

*Opinion*

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 20X1 **and 20X0**, and its financial performance and its cash flows for the **years** 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 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.

***Emphasis of Matter - Restated Comparative Information***

**We draw attention to Note X to the financial statements, which explains that certain comparative information presented for the year ended December 31, 20X0 has been restated. Our opinion is not modified in respect of this matter.**

*Other Information*

[See [Chapter 14, Illustration 3](#)]

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (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.

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.

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

*Auditor's Responsibilities for the Audit of the 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.

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.

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

[Auditor's signature]

[Auditor's address]

[Date]

## **Illustration 16: Comparative financial statements reporting approach Unmodified opinion in prior year – predecessor auditor for prior year**

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

### **Type of entity:**

- ABC Company is a listed entity.
  - Refer to [Chapter 9](#).

### **Financial reporting framework:**

- The financial reporting framework is International Financial Reporting Standards.
  - Refer to [Chapter 1, Section A](#).

### **Financial statements:**

- A material misstatement has been discovered in the prior year financial statements on which an unmodified opinion has previously been expressed.
- The previously issued financial statements for the prior year are not amended (i.e., they were not restated and reissued). Rather, the Entity has decided to restate the comparative information in the current year's financial statements.
- A note to the financial statements fully describes the restatement of the comparative information.
- An opening statement of financial position has not been presented.

### **Prior year:**

- The financial statements for the prior year were audited by a predecessor auditor.
  - Refer to [Section C, Q&A 1](#) of this chapter – an Other Matter paragraph is required.
- The predecessor's report on the prior year's financial statements is not reissued with the current year's financial statements.

### **Reporting implications:**

- The successor auditor has obtained sufficient appropriate audit evidence over the prior year's closing balances, included the restatement of the comparative information.
  - Refer to [Section C, Q&A 2](#) of this chapter.
- The successor auditor has added an Emphasis of Matter paragraph referring to the note to the financial statements that fully describes the restatement of the comparative information.
  - Refer to [Section C, Q&A 2](#) of this chapter.

- Neither the successor auditor nor the predecessor auditor were engaged to provide an audit opinion on the restated comparative information taken as a whole.
- The successor auditor was engaged to report as to the appropriateness, and proper application, of the restatement of the comparative information. Accordingly, the successor auditor expanded the Other Matter paragraph referring to the predecessor auditor for additional explanation indicating that the successor auditor audited the adjustments that were applied to restate the comparative information.
  - Refer to [Section C, Q&A 2](#) and [3](#) of this chapter.
- The successor auditor has decided to combine the Other Matter paragraph referring to the predecessor practitioner (and its expansion to refer to the audit of the adjustments) and the Emphasis of Matter (EOM) paragraph referring to the restatement note into one section entitled “Emphasis of Matter – Restated Comparative Information”. Paragraph 9(a) of CAS 706 requires that an EOM paragraph include an appropriate heading that includes the term “Emphasis of Matter”.
  - Refer to [Section B, Q&A 5](#) of this chapter.
- The auditor has obtained part of the other information prior to the date of the auditor’s report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor’s report.
  - Refer to [Chapter 14](#).

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

*Opinion*

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 20X1, and its financial performance and its 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 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.

***Emphasis of Matter - Restated Comparative Information***

**We draw attention to Note X to the financial statements, which explains that certain comparative information for the year ended December 31, 20X0 has been restated. Our opinion is not modified in respect of this matter.**

**The financial statements for the year ended December 31, 20X0 excluding the adjustments that were applied to restate certain comparative information were audited by another auditor who expressed an unmodified opinion on those financial statements on March 31, 20X1.**

**As part of our audit of the financial statements for the year ended December 31, 20X1, we also audited the adjustments applied to restate certain comparative information presented. In our opinion, such adjustments are appropriate and have been properly applied.**

**Other than with respect to the adjustments that were applied to restate certain comparative information, we were not engaged to audit, review, or apply any procedures to the financial statements for the year ended December 31, 20X0. Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.**

*Other Information*

[See [Chapter 14, Illustration 3](#)]

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (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.

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.

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

#### *Auditor's Responsibilities for the Audit of the 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.

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.



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

[Auditor's signature]

[Auditor's address]

[Date]

## Illustration 17: Comparative financial statements reporting approach Unmodified opinion in prior year – predecessor auditor for prior year

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

### Type of entity:

- ABC Company is a listed entity.
  - Refer to [Chapter 9](#).

### Financial reporting framework:

- The financial reporting framework is International Financial Reporting Standards.
  - Refer to [Chapter 1, Section A](#).

### Financial statements:

- A change in accounting policy has been implemented retrospectively during the year.
- The previously issued financial statements of the prior year are not amended (i.e., they are not restated and reissued). Rather, the comparative information has been restated in the current year's financial statements.
- A note to the financial statements fully describes the restatement of the comparative information.
- An opening statement of financial position (i.e., as at January 1, 20X1) is included in the financial statements because the restatement has a material effect on the information in the statement of financial position at the beginning of the preceding period.
  - Refer to [Section A, Q&A 2](#) of this chapter.

### Prior year:

- The financial statements for the prior year (and earlier years) were audited by a predecessor auditor.
  - Refer to [Section C, Q&A 1](#) of this chapter – an Other Matter paragraph is required.
- The predecessor's report on the prior year's financial statements is not reissued with the current year's financial statements.

### Reporting implications:

- The successor auditor has obtained sufficient appropriate audit evidence over the prior year's closing balances, including the restatement of the comparative information.
  - Refer to [Section C, Q&A 2](#) of this chapter.

- The successor auditor has added an Emphasis of Matter paragraph referring to the note to the financial statements that fully describes the restatement of the comparative information.
  - Refer to [Section C, Q&A 2](#) of this chapter.
- Neither the successor auditor nor the predecessor auditor were engaged to provide an audit opinion on the restated comparative information taken as a whole.
- The successor auditor was engaged to report as to the appropriateness, and proper application, of the restatement of the comparative information. Accordingly, the successor auditor expanded the Other Matter paragraph referring to the predecessor auditor for additional explanation indicating that the successor auditor audited the adjustments that were applied to restate the comparative information.
  - Refer to [Section C, Q&A 2](#) and [3](#) of this chapter.
- The successor auditor has decided to combine the Other Matter paragraph referring to the predecessor practitioner (and its expansion to refer to the audit of the adjustments) and the Emphasis of Matter paragraph referring to the restatement note into one section entitled “Emphasis of Matter – Restated Comparative Information”. Paragraph 9(a) of CAS 706 requires that an EOM paragraph include an appropriate heading that includes the term “Emphasis of Matter”.
  - Refer to [Section B, Q&A 5](#) of this chapter.
- The auditor has obtained part of the other information prior to the date of the auditor’s report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor’s report.
  - Refer to [Chapter 14](#).

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

*Opinion*

We have audited the financial statements of ABC Company (the Entity), which comprise the statement of financial position as at December 31, 20X2, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 20X2, and its financial performance and its 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 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.

***Emphasis of Matter - Restated Comparative Information***

**We draw attention to Note X to the financial statements, which explains that certain comparative information presented:**

- **for the year ended December 31, 20X1 has been restated.**
- **as at January 1, 20X1 has been derived from the statement of financial position as at December 31, 20X0 (not presented herein).**

**Our opinion is not modified in respect of this matter.**

**The financial statements for the years ended December 31, 20X1 and 20X0 (not presented herein but from which the comparative information as at January 1, 20X1 has been derived), excluding the adjustments that were applied to restate certain comparative information were audited by another auditor who expressed an unmodified opinion on those financial statements on [dates] respectively.**

**As part of our audit of the financial statements for the year ended December 31, 20X2, we also audited the adjustments that were applied to restate certain comparative information:**

- **for the year ended December 31, 20X1**
- **as at January 1, 20X1.**

**In our opinion, such adjustments are appropriate and have been properly applied.**

**Other than with respect to the adjustments that were applied to restate certain comparative information, we were not engaged to audit, review, or apply any procedures to the financial statements:**

- **for the year ended December 31, 20X1**
- **for the year ended December 31, 20X0 (not presented herein)**
- **as at January 1, 20X1**

**Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.**

*Other Information*

[See [Chapter 14, Illustration 3](#)]

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Standards (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.

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.

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

*Auditor's Responsibilities for the Audit of the 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.

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.

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

[Auditor's signature]

[Auditor's address]

[Date]

## **Illustration 18: Comparative financial statements reporting approach Unmodified opinion in prior year – predecessor auditor for prior year is reporting on comparative information**

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

### **Type of entity:**

- ABC Company is a listed entity.
  - Refer to [Chapter 9](#).

### **Financial reporting framework:**

- The financial reporting framework is International Financial Reporting Standards.
  - Refer to [Chapter 1, Section A](#).

### **Financial statements:**

- The previously issued financial statements of the prior year were not amended (i.e., they are not restated and reissued). Rather, the comparative information has been restated (e.g., either for a change in accounting policy or for a material misstatement).
- A note to the financial statements fully describes the restatement of the comparative information.
- An opening statement of financial position (i.e., as at January 1, 20X0) is included in the financial statements in accordance with IFRS because the restatement has a material effect on the information in the statement of financial position at the beginning of the preceding period.

### **Prior year:**

- The financial statements for the prior year (and earlier years) were audited by a predecessor auditor.
  - Refer to [Section C, Q&A 1](#) of this chapter – an Other Matter paragraph is required.
- The predecessor's report on the prior year's financial statements is not reissued with the current year's financial statements.

### **Reporting implications:**

- The predecessor auditor has been engaged to report on the comparative information in the current period financial statements.
- The successor auditor has been engaged to report on the current period figures in the current period financial statements.

- The successor auditor has obtained sufficient appropriate audit evidence over the prior year's closing balances, including the restatement of the comparative information.
- The successor auditor has added an Emphasis of Matter paragraph referring to disclosures that fully describe the restatement of the comparative information.
  - Refer to [Section C, Q&A 2](#) of this chapter.
- The successor auditor has decided to combine the Other Matter paragraph referring to the predecessor auditor and the Emphasis of Matter paragraph referring to the restatement note into one section entitled "Emphasis of Matter - Restated Comparative Information". Paragraph 9(a) of CAS 706 requires that an EOM paragraph include an appropriate heading that includes the term "Emphasis of Matter".
  - Refer to [Section B, Q&A 5](#) of this chapter.
- The predecessor auditor has decided to add an Other Matter paragraph that refers to the successor's report on the current period figures.
  - Refer to [Section C, Q&A 2](#) of this chapter.
- The auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.
  - Refer to [Chapter 14](#).



## Successor Auditor's Report

### INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

#### *Opinion*

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 20X1, and its financial performance and its 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 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.

#### ***Emphasis of Matter - Restated Comparative Information***

**We draw attention to Note X to the financial statements, which explains that certain comparative information presented for the year ended December 31, 20X0 has been restated. Our opinion is not modified in respect of this matter.**

**The accompanying comparative information, which comprises the statements of financial position as at December 31, 20X0 and January 1, 20X0, the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year ended December 31, 20X0, and notes to the comparative information, including a summary of significant accounting policies and Note X, which explains that certain comparative information has been restated, were audited by another auditor who expressed an unmodified opinion on [date].**

#### *Other Information*

[See [Chapter 14, Illustration 3](#)]

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Standards (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.

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.

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

*Auditor's Responsibilities for the Audit of the 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.

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.

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

[Auditor's signature]

[Auditor's address]

[Date]

## Predecessor Auditor's Report

### INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

#### *Opinion*

We have audited the **comparative information** of ABC Company (the Entity), which comprise the statements of financial position as at **December 31, 20X0 and January 1, 20X0**, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended December 31, 20X0, and notes to the **comparative information**, including a summary of significant accounting policies, **including Note X, which explains that certain comparative information has been restated.**

In our opinion, the accompanying **comparative information** in these financial statements present fairly, in all material respects, the financial position of the Entity as at **December 31, 20X0 and January 1, 20X0**, and its financial performance and its cash flows for the year ended December 31, 20X0 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 Comparative Information* section of our report. We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the **comparative information** in these 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.

#### **Other Matter**

**The accompanying financial statements, which comprise the statements of financial position as at December 31, 20X1, the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies, were audited by another auditor who expressed an unmodified opinion on [date].**

#### *Responsibilities of Management and Those Charged with Governance for the **Comparative Information***

Management is responsible for the preparation and fair presentation of the **comparative information** in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of **comparative information** that is free from material misstatement, whether due to fraud or error.

In preparing the **comparative information**, 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.

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

*Auditor's Responsibilities for the Audit of the **Comparative Information***

Our objectives are to obtain reasonable assurance about whether the **comparative information** as a whole is 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 this **comparative information**. 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 **comparative information**, 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 **comparative information** 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 **comparative information**, including the disclosures, and whether the **comparative information** represents the underlying transactions and events in a manner that achieves fair presentation.

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.

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

[Auditor's signature]

[Auditor's address]

[Date]

### **Illustration 19: Corresponding figures reporting approach Qualified opinion in prior year – same auditor for prior year**

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

#### **Financial reporting framework:**

- The financial reporting framework is Canadian accounting standards for private enterprises.
  - Refer to [Chapter 1, Section A](#).

#### **Prior year:**

- The financial statements of the prior year were audited by the current auditor.
- The report on the financial statements of the prior year included a qualified opinion because the entity did not depreciate property, plant and equipment as required by Canadian accounting standards for private enterprises.

#### **Financial statements:**

- The entity has decided, in the current year, to depreciate property, plant and equipment as required by Canadian accounting standards for private enterprises with retrospective application.
- The previously issued financial statements for the prior year were not amended (i.e., they were not restated and reissued). Rather, the comparative information has been restated in the current year's financial statements.
- A note to the financial statements fully describes the restatement.

#### **Reporting implications:**

- The auditor has obtained sufficient appropriate audit evidence over the prior year's closing balances, including the restatement of the comparative information.
  - Refer to [Section B, Q&A 5](#) of this chapter.
- The auditor's opinion on the current period need not refer to the modified opinion of the previous period as the comparative information has been appropriately adjusted.
  - Refer to [Section B, Q&A 4](#) of this chapter.
- The auditor was not engaged to report, and has decided not to report, on the adjustments that were applied to restate the comparative information.

The Illustrative Report would be similar to [Illustration 13](#).

## Illustration 20: Corresponding figures reporting approach Qualified opinion in prior year – predecessor auditor for prior year

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

### Financial reporting framework:

- The financial reporting framework is Canadian accounting standards for private enterprises.
  - Refer to [Chapter 1, Section A](#).

### Prior year:

- The financial statements of the prior year were audited by a predecessor auditor.
  - Refer to [Section C, Q&A 1](#) of this chapter – The successor auditor has decided to add an Other Matter paragraph.
- The predecessor’s report on the financial statements of the prior year included a qualified opinion because the entity did not depreciate property, plant and equipment as required by Canadian accounting standards for private enterprises.

### Financial statements:

- The entity has decided, in the current year, to depreciate property, plant and equipment as required by Canadian accounting standards for private enterprises with retrospective application.
- The previously issued financial statements for the prior year were not amended (i.e., they were not restated and reissued). Rather, the comparative information has been restated in the current year’s financial statements.
- A note to the financial statements fully describes the restatement of the comparative information.

### Reporting implications:

- The successor auditor has obtained sufficient appropriate audit evidence over the prior year’s closing balances, including the restatement of the comparative information.
  - Refer to [Section C, Q&A 2](#) of this chapter.
- The successor auditor’s opinion on the current period need not refer to the modified opinion of the previous period as the comparative information has been appropriately adjusted.
  - Refer to [Section B, Q&A 4](#) of this chapter.
- Neither the successor auditor nor the predecessor auditor were engaged to provide an opinion on the restated comparative information taken as a whole.

- The successor auditor was not engaged to report, and has decided not to report, on the adjustments that were applied to restate the comparative information.

The Illustrative Report would be similar to [Illustration 14](#).

## Illustration 21: Comparative financial statements Qualified opinion in prior year – same auditor for prior year

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

### Financial reporting framework:

- The financial reporting framework is Canadian accounting standards for private enterprises.
  - Refer to [Chapter 1, Section A](#).

### Prior year:

- The financial statements of the prior year were audited by the current auditor.
- The report on the financial statements of the prior year included a qualified opinion because the entity did not depreciate property, plant and equipment as required by Canadian accounting standards for private enterprises.

### Financial statements:

- The entity has decided, in the current year, to depreciate property, plant and equipment as required by Canadian accounting standards for private enterprises with retrospective application.
- The previously issued financial statements for the prior year are not amended (i.e., they were not restated and reissued). Rather, the comparative information has been restated in the current year's financial statements.
- A note to the financial statements fully describes the restatement of the comparative information.

### Reporting implications:

- The auditor has obtained sufficient appropriate audit evidence over the prior year's closing balances, including the restatement of comparative information.
- The auditor has added an Emphasis of Matter (EOM) paragraph referring to the note to the financial statements that fully describes the restatement of the comparative information.
- The auditor's opinion on the comparative information (an unmodified opinion) differs from the opinion the auditor previously expressed on the prior year financial statements (a qualified opinion). Accordingly, an Other Matter (OM) paragraph is required referring to the fact that the auditor's opinion on the comparative information differs from the opinion previously expressed on the prior year financial statements.
  - Refer to [Section B, Q&A 5](#) of this chapter.



- The auditor has decided to combine the OM paragraph referring to the difference in opinion and the Emphasis of Matter paragraph referring to the restatement note into one section entitled “Emphasis of Matter-Restated Comparative Information”. Paragraph 9(a) of CAS 706 requires that an EOM paragraph include an appropriate heading that includes the term “Emphasis of Matter”.
  - Refer to [Section B, Q&A 5](#) of this chapter.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

*Opinion*

We have audited the financial statements of ABC Company (the Entity), which comprise the balance sheets as at December 31, 20X1 **and 20X0**, and the statements of income, retained earnings and cash flows for the **years** then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 20X1 **and 20X0**, and its results of operations and its cash flows for the **years** then ended in accordance with Canadian accounting standards for private enterprises.

*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 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.

***Emphasis of Matter - Restated Comparative Information***

**We draw attention to Note X to the financial statements, which explains that certain comparative information presented for the year ended December 31, 20X0 has been restated to record depreciation not previously recorded. Our opinion is not modified in respect of this matter.**

**In our report dated March 20, 20X1, our opinion on the financial statements for the year ended December 31, 20X0 contained a qualified opinion because the Entity did not depreciate property, plant and equipment as required by Canadian accounting standards for private enterprises. Accordingly, our opinion on the financial statements for the year ended December 31, 20X0 expressed in that report is different from the opinion expressed on the comparative information for the year ended December 31, 20X0 in this report because of the restatement of comparative information.**

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, 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.

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.

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

*Auditor's Responsibilities for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]

## Illustration 22: Comparative financial statements reporting approach Qualified opinion in prior year – predecessor auditor for prior year

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

### Financial reporting framework:

- The financial reporting framework is Canadian accounting standards for private enterprises.
  - Refer to [Chapter 1, Section A](#).

### Prior year:

- The financial statements for the prior year were audited by a predecessor auditor.
  - Refer to [Section C, Q&A 1](#) of this chapter – an Other Matter paragraph is required.
- The predecessor’s report on the financial statements of the prior year included a qualified opinion because the entity did not depreciate property, plant and equipment as required by Canadian accounting standards for private enterprises.
- The predecessor’s report on the prior year’s financial statements was not reissued with the current year’s financial statements.

### Financial statements:

- The entity has decided, in the current year, to depreciate property, plant and equipment as required by Canadian accounting standards for private enterprises with retrospective application.
- The previously issued financial statements for the prior year were not amended (i.e., they were not restated and reissued). Rather, the comparative information has been restated in the current year’s financial statements.
- A note to the financial statements fully describes the restatement of the comparative information.

### Reporting implications:

- The successor auditor has obtained sufficient appropriate audit evidence over the prior year’s closing balances, including the restatement of the comparative information.
  - Refer to [Section B, Q&A 2](#) of this chapter.
- The successor auditor determined that the restatement was not fundamental to users’ understanding of the financial statements and therefore, an Emphasis of Matter paragraph referring to the note to the financial statements that fully describe the restatement of the comparative information has not been included within the report.

- Neither the successor auditor nor the predecessor auditor were engaged to provide an audit opinion on the restated comparative information taken as a whole.
- The successor auditor was engaged to report on the adjustments that were applied to restate the comparative information. Accordingly, the successor auditor expanded the Other Matter paragraph referring to the predecessor auditor for additional explanation indicating that the successor auditor audited the adjustments that were applied to restate the comparative information. The resulting section has been entitled “Other Matter - Restated Comparative Information”.
  - Refer to [Section C, Q&A 3](#) of this chapter.

Excerpt from the predecessor report on the financial statements of ABC Company for the year ended December 31, 20X0:

*Basis for Qualified Opinion*

As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements, which constitutes a departure from Canadian accounting standards for private enterprises. This is the result of a decision taken by management at the start of this financial year. Based on the straight-line method of depreciation and annual rates of 5% for the building and 20% for the equipment, the loss for the year should be increased by \$xxx, property, plant and equipment should be reduced by accumulated depreciation of \$xxx, and retained earnings should be decreased by \$xxx.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

*Opinion*

We have audited the financial statements of ABC Company (the Entity), which comprise the balance sheet as at December 31, 20X1, and its statements of income, retained earnings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 20X1, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

*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 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.

***Other Matter - Restated Comparative Information***

**The financial statements for the year ended December 31, 20X0 excluding the adjustments that were applied to restate certain comparative information were audited by another auditor who expressed a qualified opinion on those financial statements on March 31, 20X1 because no depreciation had been provided in the financial statements, which constituted a departure from Canadian accounting standards for private enterprises.**

**As part of our audit of the financial statements for the year ended December 31, 20X1, we also audited the adjustments applied to restate certain comparative information presented. In our opinion, such adjustments are appropriate and have been properly applied.**

**Other than with respect to the adjustments that were applied to restate certain comparative information, we were not engaged to audit, review, or apply any procedures to the financial statements for the year ended December 31, 20X0. Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.**

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, 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.

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.

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

*Auditor's Responsibilities for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]

## Misstatement discovered after financial statements issued

### Illustration 23: Corresponding figures reporting approach Reissued financial statements – same auditor for prior year

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

#### Financial reporting framework:

- The financial reporting framework is Canadian accounting standards for private enterprises.
  - Refer to [Chapter 1, Section A](#).

#### Financial statements:

- The auditor obtained audit evidence that a material misstatement exists in the prior year financial statements on which an unmodified opinion has previously been expressed.
- The previously issued financial statements of the prior year are amended and reissued.
- A note to the financial statements entitled “Amended Financial Statements” describes the reason for the amendment to the previously issued financial statements.
- Law, regulation or the financial reporting framework DOES NOT prohibit management from restricting the amendment of the financial statements to the effects of the subsequent event or events causing that amendment and those responsible for approving the financial statements are not prohibited from restricting their approval to that amendment.

#### Prior year:

- The financial statements of the prior year were audited by the current auditor.

#### Reporting implications:

- The material misstatement became known to the auditor after the financial statements were issued that, had it been known to the auditor at the date of the report, would have caused the auditor to amend the report.
- The auditor issued an amended report on the amended financial statements.
  - Refer to [Section B, Q&A 2](#) of this chapter.
- The amended report included an additional date restricted to the amendment to the financial statements.
  - Refer to [Chapter 2, Q&A 4](#).



- The auditor dated the report using Method 2 because law, regulation or the financial reporting framework does not prohibit management from restricting the amendment of the financial statements to the effects of the subsequent event or events.
  - Refer to [Section B, Q&A 2](#) of this chapter.
- An Emphasis of Matter (EOM) paragraph is required referring to a note to the financial statements that more extensively discusses the reason for the amendment.
  - Refer to [Section B, Q&A 2](#) of this chapter.
- An Other Matter (OM) paragraph is required referring to the earlier report provided by the auditor.
  - Refer to [Section B, Q&A 2](#) of this chapter.
- Because both the EOM and OM paragraphs are interrelated, the auditor has decided to combine the paragraphs into one paragraph entitled “Emphasis of Matter – Amended Financial Statements”. Paragraph 9(a) of CAS 706 requires that an EOM paragraph include an appropriate heading that includes the term “Emphasis of Matter”.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

*Opinion*

We have audited the financial statements of ABC Company (the Entity), which comprise the balance sheet as at December 31, 20X1, and the statements of income, retained earnings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 20X1, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

*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 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.

***Emphasis of Matter - Amended Financial Statements***

**We draw attention to Note X to the financial statements, which describes that the financial statements that we originally reported on March 20, 20X2 have been amended and describes the matter that gave rise to the amendment of the financial statements. Our opinion is not modified in respect of this matter.**

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, 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.

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.

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

*Auditor's Responsibilities for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

**March 20, 20X2, except as to Note X, which is as of April 15, 20X2.**

## **Illustration 24: Comparative financial statements reporting approach Reissued financial statements - same auditor for prior year**

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

### **Type of entity:**

- ABC Company is a listed entity.
  - Refer to [Chapter 9](#).

### **Financial reporting framework:**

- The financial reporting framework is International Financial Reporting Standards.
  - Refer to [Chapter 1, Section A](#).

### **Financial statements:**

- A material misstatement has been discovered in the prior year financial statements on which an unmodified opinion has previously been expressed.
- The previously issued financial statements of the prior year are amended and reissued.
- A note to the financial statements entitled “Amended Financial Statements” describes the reasons for the amendment to the previously issued financial statements.
- Law, regulation or the financial reporting framework DOES prohibit management from restricting the amendment of the financial statements to the effects of the subsequent event or events causing that amendment and those responsible for approving the financial statements are prohibited from restricting their approval to that amendment.
- An opening statement of financial position has not been presented.

### **Prior year:**

- The financial statements of the prior year were audited by the current auditor.

### **Reporting implications:**

- The material misstatements became known to the auditor after the financial statements were issued that, had it been known to the auditor at the date of the report, may have caused the auditor to amend the report.
- The auditor issued an amended report on the amended financial statements.
  - Refer to [Section B, Q&A 2](#) of this chapter.
- The amended report extends the date of the report.
  - Refer to [Chapter 2, Q&A 4](#).

- The auditor dated the report using Method 1 because law, regulation or the financial reporting framework does prohibit management from restricting the amendment of the financial statements to the effects of the subsequent event or events.
  - Refer to [Section B, Q&A 2](#) of this chapter.
- An Emphasis of Matter (EOM) paragraph is required referring to a note to the financial statements that more extensively discusses the reason for the amendment.
  - Refer to [Section B, Q&A 2](#) of this chapter.
- An Other Matter (OM) paragraph is required referring to the earlier report provided by the auditor.
  - Refer to [Section B, Q&A 2](#) of this chapter.
- Because both the EOM and OM paragraphs are interrelated, the auditor has decided to combine the paragraphs into one paragraph entitled “Emphasis of Matter – Amended Financial Statements”. Paragraph 9(a) of CAS 706 requires that an EOM paragraph include an appropriate heading that includes the term “Emphasis of Matter”.
- The auditor has obtained part of the other information prior to the date of the auditor’s report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor’s report.
  - Refer to [Chapter 14](#).

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

*Opinion*

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 20X1 **and 20X0**, and its financial performance and its cash flows for the **years** 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 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.

***Emphasis of Matter - Amended Financial Statements***

**We draw attention to Note X to the financial statements, which describes that the financial statements that we originally reported on March 20, 20X2 have been amended and describes the matter that gave rise to the amendment of the financial statements. Our opinion is not modified in respect of this matter.**

*Other Information*

[See [Chapter 14, Illustration 3](#)]

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (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.

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.

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

*Auditor's Responsibilities for the Audit of the 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.

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.

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

[Auditor's signature]

[Auditor's address]

**April 15, 20X2**

## Qualification arising from a correction of financial statements in accordance with paragraph PS 2120.31

### Illustration 25: Corresponding figures reporting approach Effects of the matter on the comparability of the current and prior years – same auditor for prior year

Please read the Introduction to Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

#### Financial reporting framework:

- The financial reporting framework is Canadian public sector accounting standards.
  - Refer to [Chapter 1, Section A](#).

#### Financial statements:

- The report on the prior year, as previously issued, included a qualified opinion arising from a departure from the financial reporting framework because of a failure to record a material liability as at March 31, 20X0.
- The departure from the financial reporting framework has been corrected in accordance with paragraph PS 2120.31 of the *CPA Canada Public Sector Accounting Handbook* by the recognition of an expense and a liability in the current year's financial statements.
  - Refer to [Section B, Q&A 7](#) of this chapter.

#### Prior year:

- The financial statements of the prior year were audited by the current auditor.

#### Reporting implications:

- The entity has decided to include a note to the 20X1 financial statements explaining the matter.

Because the comparative information in the 20X0 financial statements is still materially misstated, the matter has not been resolved for the purposes of paragraph 11 of CAS 710 even though the entity correctly accounted for the error in the current year's figures in the 20X1 financial statements for financial reporting purposes in accordance with paragraph PS 2120.31. Accordingly, the auditor would apply paragraph 11(b) of CAS 710 and modify the auditor's opinion because, notwithstanding the correction of the error, there are effects on the comparability of the current year's figures and the corresponding figures.

This Illustrative Report can be compared with the report under the comparative financial statements reporting approach. Under this approach, the auditor's opinion on the current year's figures in the 20X1 financial statements would be an unmodified opinion because the



entity correctly accounted for the error in accordance with paragraph PS 2120.31. Also, the report on the comparative information in the 20X1 financial statements would contain a qualified opinion because the financial statements contain a material departure from Canadian public sector accounting standards.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

**Qualified Opinion**

We have audited the financial statements of ABC Government Organization (the Entity), which comprise the statement of financial position as at March 31, 20X1, and the statements of operations, change in net debt and cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, **except for the effects on the comparative information of the matter described in the Basis for Qualified Opinion paragraph**, the accompanying financial statements present fairly, in all material respects, the financial position of Entity as at March 31, 20X1 and its results of operations, its changes in its net debt, and its cash flows for the year ended March 31, 20X1 in accordance with Canadian public sector accounting standards.

**Basis for Qualified Opinion**

**As discussed in Note X to the financial statements, the Entity did not accrue for liabilities of \$xxx for XYZ program as at March 31, 20X0, which constitutes a departure from Canadian public sector accounting standards. The program expenses should have been increased and the results of operations should have been decreased for the year ended March 31, 20X0 by \$xxx, and accrued liabilities and net debt should have been increased as at March 31, 20X0 by \$xxx. This caused us to modify our opinion on the financial statements for that year.**

**In accordance with Canadian public sector accounting standards, the Entity corrected the error in the current year's figures rather than correcting the comparative information. Our opinion on the current year's financial statements is modified because of the effects of this matter on the comparability of the current year's figures and the comparative information.**

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 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 **qualified** opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, 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.

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.

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

*Auditor's Responsibilities for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]

## CHAPTER 5

# Audits of Historical Financial Information Other Than Financial Statements

This chapter includes the following Q&As:

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1	Which CASs apply to audits of historical financial information other than financial statements?	216
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1	How is the financial reporting framework described in the report when reporting on historical information other than financial statements?	217
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3	How does the auditor describe the historical financial information other than financial statements in the auditor’s report?	221
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## Illustrative Reports

The following Illustrations are included in this chapter:

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## A Historical financial information, other than financial statements

### 1 What is “historical financial information”?

- 1.1 The Glossary of Terms in the *CPA Canada Handbook – Assurance* defines “historical financial information” as information expressed in financial terms in relation to a particular entity, derived primarily from that entity’s accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.
- 1.2 An entity may prepare information that is not historic financial information. The information may, for example, not be expressed in financial terms, such as the number of containers processed in a recycling facility, or it may not relate to economic events occurring in past time periods (e.g., projections or forecasts of financial performance).

An audit of such information is not conducted in accordance with the CASs. The auditor may refer to the [Appendix](#) of this chapter for guidance.

### 2 Is historical financial information a complete set of financial statements or other historical financial information?

- 2.1 When the auditor is engaged to report on a complete set of financial statements, the auditor makes reference to CAS 700 (for a general purpose financial reporting framework), or CAS 800 (for a special purpose financial reporting framework), as appropriate, in determining how to report.
- 2.2 The Glossary of Terms in the *CPA Canada Handbook – Assurance* defines the term “financial statements” as a structured representation of historical financial information, including disclosures, intended to communicate an entity’s economic resources or obligations at a point in time, or the changes therein for a period of time, in accordance with a financial reporting framework. Disclosures comprise explanatory or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework, on the face of a financial statement, or in the notes, or incorporated therein by cross-reference. It also states that the term ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework.

### General Purpose Financial Reporting Framework

- 2.3 When the applicable financial reporting framework is one of the financial reporting frameworks in the *CPA Canada Handbook – Accounting*, the *CPA Canada Handbook – Public Sector Accounting*, or another generally accepted general purpose framework such as U.S. GAAP, the application of all the requirements of such a framework typically results in the preparation of a complete set of financial statements.
- 2.4 A complete set of financial statements comprises financial statements designed as an integrated package to provide a more comprehensive set of financial information for users. For example, general purpose financial statements comprising a balance sheet, income statement and statement of cash flows are designed to present, as an integrated package, the financial position, financial performance / results of operations and cash flows of an entity. However, some financial reporting frameworks, particularly some special purpose financial reporting frameworks, may prescribe financial information that is not integrated but comprises a package of individual financial statements or schedules (e.g., when a lender requires separate statements identifying financial statement items for debt covenant purposes). Such a package of financial information would likely not constitute a complete set of financial statements. Therefore, the auditor may need to consider the underlying objective of the package of financial information in determining whether the package is a complete set of financial statements, and whether to apply the requirements in CAS 805.

### Special Purpose Financial Reporting Framework

- 2.5 When a special purpose financial reporting framework prescribes the presentation of financial statements and disclosures to communicate the economic resources or obligations at a point in time or the changes therein for a period of time, these financial statements comprise a complete set of financial statements, even though the special purpose financial reporting framework does not require all the financial statements or disclosures that would be required by a general purpose financial reporting framework. This is because the Glossary of Terms indicates a complete set of financial statements is “as determined by the requirements of the applicable financial reporting framework,” and a special purpose financial reporting framework is designed to meet the financial information needs of specific users.

## B Applicable standards

### 1 Which CASs apply to audits of historical financial information other than financial statements?

- 1.1 The CASs are to be applied in the audit of financial statements and other historical financial information. Paragraph 1 of CAS 805 indicates that the CASs in the 100-700 series apply to an audit of financial statements and are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. If the other historical information is prepared in accordance with a special purpose financial reporting framework, Paragraph 1 of CAS 805 indicates that CAS 800 also applies to the audit.
- 1.2 Other Canadian Standards, in the *CPA Canada Handbook—Assurance*, contains engagement standards that are applied in a variety of engagements other than audits of financial statements and other historical financial information.
- 1.3 In some cases, it may not be clear which engagement standards the practitioner uses when engaged to report on information (see the [Appendix](#) to this chapter for a decision tree that assists in deciding which standards are applicable to the information under audit).



## C Financial reporting framework and impact on the report

### 1 How is the financial reporting framework described in the report when reporting on historical information other than financial statements?

- 1.1 Before accepting an engagement to report on historical financial information other than financial statements, paragraph 6(a) of CAS 210 requires the auditor to determine the acceptability of the financial reporting framework to be applied in the preparation of the historical financial information other than financial statements. Paragraph 8 of CAS 805 indicates that such determination includes whether application of the financial reporting framework will result in a presentation that provides adequate disclosures to enable intended users to understand the information conveyed in the historical financial information other than financial statements and the effect of material transactions and events on the information conveyed in the historical financial information other than financial statements.
- 1.2 The auditor is required<sup>16</sup> to evaluate whether the historical financial information other than financial statements adequately refers to or describes the applicable financial reporting framework. In the case of historical financial information other than financial statements prepared in accordance with the provisions of a contract, paragraph 12 of CAS 800 requires that the auditor shall evaluate whether the historical financial information other than financial statements adequately describes any significant interpretations of the contract on which the historical information other than financial statements is based.
- 1.3 Paragraph A6 of CAS 200 states that a financial reporting framework ordinarily embodies sufficient broad principles that can serve as a basis for developing and applying accounting policies that are consistent with the concepts underlying the requirements of the financial reporting framework. Accordingly, even when a financial reporting framework requires minimal disclosures be provided in the notes to the historical financial information other than financial statements, the historical financial information other than financial statements should include, at a minimum, a description of the applicable financial reporting framework.
- 1.4 In some cases, a simple reference (e.g., to the financial reporting provisions of a contract) may be sufficient to describe the financial reporting framework. This would be the case, for example, when the financial reporting provisions of the contract are sufficiently detailed and not subject to significant interpretation. In

<sup>16</sup> Paragraph 15 of CAS 700, adapted for reporting on historical information other than financial statements.

other cases, more detail may need to be provided as to the principles and any significant interpretations used as a basis for developing and applying accounting policies in the preparation of the historical financial information other than financial statements.

- 1.5 Paragraph A7 of CAS 805 deals with when historical financial information other than financial statements is prepared in accordance with an applicable financial reporting framework that is based on a financial reporting framework established by an authorized or recognized standards setting organization for the preparation of a complete set of financial statements (e.g., International Financial Reporting Standards or Canadian accounting standards for private enterprises). In this case, determination of the acceptability of the applicable financial reporting framework may involve considering whether the applicable financial reporting framework includes all the recognition, measurement, presentation and disclosure requirements of the financial reporting framework on which it is based that are relevant to the preparation of historical financial information other than financial statements.
- 1.6 In many cases, the financial reporting framework for preparation of historical financial information other than financial statements may not specify which accounting policies to apply, as discussed in paragraph A6 of CAS 200, or may make a general statement (e.g., that the historical financial information other than financial statements be prepared in accordance with “Canadian generally accepted accounting principles”). This creates the following challenges for management and the auditor:
  - a. Because Canadian GAAP includes different financial reporting frameworks, management needs to identify an appropriate financial reporting framework for the purpose of the historical financial information other than financial statements that is being prepared. This financial reporting framework is often, but not always, the same financial reporting framework used in preparing the entity’s complete set of financial statements.
  - b. The financial reporting framework may not explicitly address the historical financial information other than financial statements. Therefore, management may need to make accounting policy choices designed to ensure recognition and measurement consistent with the financial reporting framework.
  - c. When other financial statement items are interrelated with the financial statement items included in the historical financial information other than financial statements being prepared by management, determining the accounting policy relevant to preparation of the historical financial

information other than financial statements may be complex (e.g., when reporting on accounts receivable, the accounting policy on revenue recognition may be relevant).

- d. In prescribing that the historical financial information other than financial statements is prepared in accordance with, for example “Canadian accounting standards for private enterprises (ASPE),” the intention of those prescribing the financial reporting framework may only have been that the historical financial information other than financial statements be prepared in accordance with the recognition and measurement requirements of ASPE and not all the related disclosures that ASPE would require or all presentation requirements that ASPE would require for a complete set of financial statements. Therefore, a description of the framework may be that “the other historical financial information is prepared in accordance with the recognition and measurement requirements of ASPE”.
- 1.7 For these reasons, the auditor’s decision as to the acceptability of the financial reporting framework and the form of opinion the auditor can express on the historical financial information other than financial statements requires the use of professional judgment. For example, when the historical financial information other than financial statements is extracted directly from the entity’s complete set of general purpose financial statements and the related accounting policies and disclosures are easy to identify, the auditor considers whether the financial reporting framework can be appropriately described as one of the general purpose financial reporting frameworks in the *CPA Canada Handbook—Accounting* or the *CPA Canada Handbook—Public Sector Accounting* and the auditor’s opinion expressed in relation to that financial reporting framework.
  - 1.8 In reaching a decision as to the acceptability of the financial reporting framework, the auditor considers whether the historical financial information other than financial statements takes into account all relevant requirements of the general purpose financial reporting framework, including those dealing with such things as subsequent events, related-party disclosures, and financial instrument recognition and measurement.
  - 1.9 If the financial reporting framework for the historical financial information other than financial statements takes into account all the requirements of the financial reporting framework for the complete set of general purpose financial statements, then the financial reporting framework used to prepare

the historical financial information other than financial statements is a general purpose financial reporting framework and the auditor's report is based on the requirements in CAS 700 and CAS 805.

- 1.10 If the financial reporting framework for the historical financial information other than financial statements does not take into account all the requirements of the financial reporting framework for the complete set of general purpose financial statements, (e.g., for a schedule of operating costs prepared in accordance with the terms of a lease agreement where the specific element, accounts or items included in the schedule are specifically defined in the lease agreement), the auditor may conclude that the financial reporting framework applied in the preparation of the historical financial information other than financial statements cannot be appropriately described as one of the financial reporting frameworks in the *CPA Canada Handbook—Accounting* or the *CPA Canada Handbook—Public Sector Accounting* and it would not be appropriate for management to state they are in compliance with that general purpose financial reporting framework or for the auditor's opinion to be expressed in relation to that general purpose financial reporting framework. In such a circumstance, it may be possible to describe the financial reporting framework by reference to the financial reporting provisions of the lease agreement, or by reference to a note describing the accounting policies applied to prepare the information. Therefore, the financial reporting framework used to prepare the historical financial information other than financial statements is a special purpose financial reporting framework and the auditor's report would be based on the requirements in CAS 700, CAS 800 and CAS 805.
- 1.11 Paragraph 13(b) of CAS 800 requires that if management has a choice of financial reporting frameworks in the preparation of historical financial information other than financial statements, the explanation of management's responsibility for the historical financial information other than financial statements shall also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances. (Refer to [Q&A 2 in section C of chapter 1](#) for guidance when management has a choice of financial reporting frameworks in the preparation of special purpose financial statements.). This would be the case for instance when the financial reporting framework for the historical financial information other than financial statements is in accordance with "Canadian generally accepted accounting principles" because Canadian GAAP includes different financial reporting frameworks as noted in 1.6(a) above.

## **2 Is the financial reporting framework a fair presentation or a compliance framework when reporting on historical financial information other than financial statements?**

- 2.1 In reporting in accordance with CAS 805, the auditor needs to consider whether the financial reporting framework is a fair presentation or a compliance financial reporting framework. (Refer to [Q&A 1 in section D of chapter 1](#) for guidance on fair presentation versus compliance frameworks.)

## **3 How does the auditor describe the historical financial information other than financial statements in the auditor's report?**

- 3.1 When the auditor is engaged to audit historical financial information other than financial statements, the auditor may need to clarify the scope of the engagement because this will affect how the auditor plans and performs the engagement and the form of the report.
- 3.2 Doing so may become more important when the entity is required to prepare a package of financial information comprising separate individual financial statements, separate schedules, or several columns within a schedule.
- 3.3 It is important that the report clearly explain the information on which the auditor is reporting so readers can understand, for example, whether the auditor is reporting on the package taken as a whole, separately on historical financial information other than financial statements, or separately on the individual items within the historical financial information other than financial statements. In some cases, the auditor may consider it more appropriate to issue two or more reports on the package of historical financial information other than financial statements to facilitate this understanding.

## **4 How does the auditor describe the historical financial information other than financial statements in the opinion paragraph of the report?**

- 4.1 When the auditor is reporting on financial information other than financial statements prepared in accordance with a fair presentation framework (see [Q&A 1 in section D of chapter 1](#)), the opinion paragraph in the report would be worded as follows:

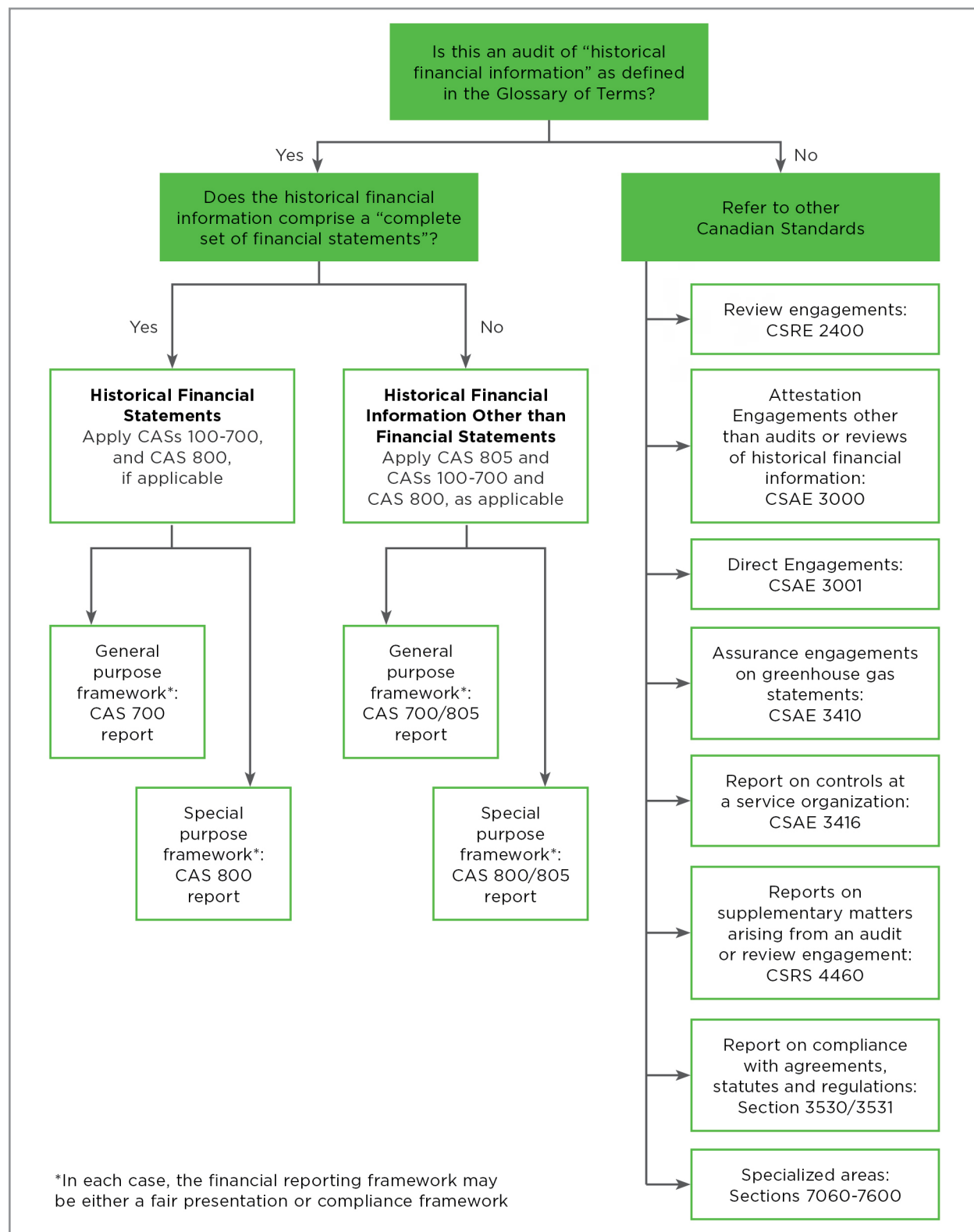
In our opinion, the [other historical financial information] presents fairly, in all material respects, the [insert what the other historical information is designed to present] of ABC Entity [“as at” or “for the period ended”, as appropriate] in accordance with [the applicable financial reporting framework].

- 4.2 When the auditor is reporting on financial information other than financial statements prepared in accordance with a compliance framework (see [Q&A 1 in section D of chapter 1](#)), the auditor’s opinion would be worded as follows:

In our opinion, the [other historical financial information] of ABC Entity [“as at” or “for the period ended”, as appropriate] December 31, 20X1, is prepared, in all material respects, in accordance with [the applicable financial reporting framework].

## Appendix

Decision tree for deciding which standards apply to information under audit.



## Introduction to Illustrative Reports

For the purposes of the illustrative reports in this chapter, the following circumstances are assumed, unless indicated otherwise:

Topic and circumstance	Reference to guidance
<b>Type of Entity</b>	
<ul style="list-style-type: none"> <li>The entity under audit is an entity other than a listed entity.</li> </ul>	Chapter 9
<b>Subject Matter</b>	
<ul style="list-style-type: none"> <li>The auditor reports on a complete set of financial statements.</li> </ul>	Chapter 5, Section A, Q&A 2
<b>Opinion</b>	
<ul style="list-style-type: none"> <li>The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate.</li> </ul>	
<b>Comparative Information</b>	
<ul style="list-style-type: none"> <li>The auditor is reporting under the corresponding figures approach (i.e., the auditor’s opinion on the financial statements refer to the current period only)</li> </ul>	Chapter 4, Q&A 1
<b>Financial Reporting Framework</b>	
<ul style="list-style-type: none"> <li>The applicable financial reporting framework is a compliance financial reporting framework.</li> </ul>	Chapter 1, Section D, Q&A 1
<ul style="list-style-type: none"> <li>The auditor has determined that the special purpose financial reporting framework is acceptable.</li> </ul>	Chapter 1, Section C, Q&A 3
<ul style="list-style-type: none"> <li>Management does not have a choice of financial reporting frameworks in the preparation of the financial information (special purpose financial reporting framework).</li> </ul>	Chapter 1, Section C, Q&A 2
<b>Ethical Requirements</b>	
<ul style="list-style-type: none"> <li>The auditor has decided to only make reference to relevant ethical requirements in Canada that apply to the audit.</li> </ul>	Chapter 10
<b>Going Concern</b>	
<ul style="list-style-type: none"> <li>The auditor has determined that the going concern basis of accounting is relevant.</li> </ul>	Chapter 11
<ul style="list-style-type: none"> <li>No material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.</li> </ul>	



Topic and circumstance	Reference to guidance
<b>Key Audit Matters</b>	
<ul style="list-style-type: none"> <li>The auditor is not required, and has otherwise not decided, to communicate key audit matters, in accordance with CAS 701.</li> </ul>	
<b>Other Information</b>	
<ul style="list-style-type: none"> <li>The auditor has determined that there is no other information (i.e., the requirements of CAS 720 do not apply)</li> </ul>	Chapter 14
<b>Responsibility of Management and Those Charged with Governance</b>	
<ul style="list-style-type: none"> <li>The terms of the audit engagement do not include any additional management responsibilities in addition to those in paragraph 6(b) of CAS 210.</li> </ul>	
<ul style="list-style-type: none"> <li>Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.</li> </ul>	Chapter 2, Q&A 3
<b>Auditor's Responsibilities</b>	
<ul style="list-style-type: none"> <li>The description of the auditor's responsibilities is included within the body of the auditor's report (refer to paragraph 41 of CAS 700).</li> </ul>	
<b>Group Audit</b>	
<ul style="list-style-type: none"> <li>The audit is not a group audit engagement (i.e., the requirements of CAS 600 do not apply).</li> </ul>	
<b>Other Reporting Responsibilities</b>	
<ul style="list-style-type: none"> <li>The auditor has no other reporting responsibilities required under law or regulation.</li> </ul>	

### **Illustration 1: Schedule of operating costs prepared in accordance with the terms of a lease agreement**

Please read the Introduction to the Illustrative Reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

#### **Purpose and preparation of the historical financial information:**

- ABC Entity is the owner of DEF Property.
- The schedule of operating costs of DEF Property is prepared to assist in meeting the requirements of the lease agreement of DEF Property.
- The tenants of DEF Property are provided with the schedule of operating costs as required by Section Z of ABC Entity's lease agreement for DEF Property. The tenants are an intended user of the schedule.

#### **Financial reporting framework:**

- The financial reporting framework is prescribed by Section X of ABC Entity's lease agreement for DEF Property. The operating costs are costs that have been incurred and paid or accrued.
- The going concern basis of accounting is not relevant as it is not a fundamental principle for the preparation of the schedule of operating costs.
  - Refer to [Q&A 2 in chapter 11](#).

#### **Reporting implications:**

- An Emphasis of Matter paragraph is required. Use of the report is restricted, but distribution of the report is not restricted. Other choices are permitted.
  - Refer to [Q&A 1 in section C of chapter 1](#) for the permitted choices.
- There is no property manager and the practitioner has determined, based on the facts and circumstances, that the ethical requirements require that the practitioner be independent of ABC Entity. (In a scenario where there is a property manager, the applicable independence requirements may require that the practitioner be independent of the property manager and ABC Entity).

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

*Opinion*

We have audited the **schedule of operating costs for DEF Property (the Property)** for the year ended December 31, 20X1, and the notes to the **schedule of operating costs** for the **Property**, including a summary of significant accounting policies (together “the **schedule**”).

In our opinion, the accompanying schedule for the year ended December 31, 20X1 is prepared, in all material respects, in accordance with the **financial reporting provisions in Section X of ABC Entity's (the Entity) lease agreement for the Property**.

*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 **Schedule*** section of our report. We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the **schedule** 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.

***Emphasis of Matter—Basis of Accounting and Restriction on Use***

**We draw attention to Note Y to the schedule, which describes the basis of accounting. The schedule is prepared to assist the Entity to meet the requirements of Section Z of the Entity's lease agreement for the Property. As a result, the schedule may not be suitable for another purpose. Our report is intended solely for the Entity and the tenants of the Property and should not be used by parties other than the Entity and the tenants of the Property. Our opinion is not modified in respect of this matter.**

*Responsibilities of Management and Those Charged with Governance for the **Schedule***

Management is responsible for the preparation of the **schedule in accordance with the financial reporting provisions in Section X of the Entity's lease agreement for the Property**, and for such internal control as management determines is necessary to enable the preparation of the **schedule** that is free from material misstatement, whether due to fraud or error.

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

*Auditor's Responsibilities for the Audit of the **Schedule***

Our objectives are to obtain reasonable assurance about whether the **schedule** is 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 this **schedule**.

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 **schedule**, 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 made by management and related disclosures made by management.

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.

[Auditor's signature]

[Auditor's address]

[Date]

## Illustration 2: Schedule of gross sales prepared in accordance with the terms of a lease agreement

Please read the Introduction to the Illustrative Reports. For purposes of this illustrative report, the following additional circumstances are assumed:

### Purpose and preparation of the financial statements:

- The schedule of gross sales of tenant DEF Entity at Store GHI is prepared to assist in meeting the requirements of the lease agreement between ABC Entity and DEF Entity for the store.
- The landlord, ABC Entity, is provided with the schedule of gross sales as required by Section Z of the lease agreement. The landlord is an intended user of the schedule.

### Financial reporting framework:

- The financial reporting framework is prescribed by Section X of the lease agreement. The financial reporting framework requires that the schedule of gross sales be prepared in accordance with “Canadian GAAP”. Because Canadian GAAP includes different financial reporting frameworks, management has a choice of financial reporting frameworks in the preparation of the schedule.
- The notes to the schedule describe the financial reporting framework by reference to the financial reporting provisions of the lease agreement, management’s choice of financial reporting framework, and any interpretations of the provisions of the lease agreement.
- The sales of Store GHI are entirely made up of cash sales and sales for which cash is received shortly thereafter.
- The going concern basis of accounting is not relevant.
  - Refer to [Q&A 2 in chapter 11](#).

### Reporting implications:

- An Emphasis of Matter paragraph is required. Use of the report is restricted, but distribution of the report is not restricted. Other choices are permitted.
  - Refer to [Q&A 1 in section C of chapter 1](#) for the permitted choices.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

*Opinion*

We have audited the **schedule of gross sales at store GHI** for the year ended December 31, 20X1, and the **notes to the schedule of gross sales at store GHI**, including a summary of significant accounting policies (together “the **schedule**”).

In our opinion, the accompanying schedule for the year ended December 31, 20X1 is prepared, in all material respects, in accordance with **the basis of accounting described in Note Y**.

*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 **Schedule*** section of our report. We are independent of DEF Entity (the Entity) in accordance with the ethical requirements that are relevant to our audit of the financial statement 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.

***Emphasis of Matter—Basis of Accounting and Restriction on Use***

**We draw attention to Note Y to the schedule, which describes the basis of accounting. The schedule is prepared to assist the Entity to meet the requirements of Section Z of the store GHI lease agreement. As a result, the schedule may not be suitable for another purpose. Our report is intended solely for the Directors of the Entity and ABC Entity and should not be used by parties other than the Entity and ABC Entity. Our opinion is not modified in respect of this matter.**

*Responsibilities of Management and Those Charged with Governance for the **Schedule***

Management is responsible for the preparation of the **schedule in accordance with the basis of accounting described in Note Y; this includes determining that the applicable financial reporting framework is acceptable for the preparation of the schedule in the circumstances**, and for such internal control as management determines is necessary to enable the preparation of the **schedule** that is free from material misstatement, whether due to fraud or error.

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

*Auditor's Responsibilities for the Audit of the **Schedule***

Our objectives are to obtain reasonable assurance about whether the **schedule** is 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 this **schedule**.

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 **schedule**, 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]

### Illustration 3: Acquisition statement for an oil and gas property prepared in accordance with National Instrument 52-107, subsection 3.11(5)

Please read the Introduction to the Illustrative Reports. For purposes of this illustrative report, the following additional circumstances are assumed:

#### Purpose and preparation of the financial statements:

- Entity DEF acquired the oil and gas property Site 123.
- DEF must file a business acquisition report with securities regulators.
- Management of DEF prepared the operating statement of Site 123 for the years ended December 31, 20X1, and December 31, 20X0.

#### Financial reporting framework:

- The financial reporting framework is prescribed by subsection 3.11(5) of National Instrument 52-107 for operating statements of acquired oil and gas properties.
- The financial reporting framework requires the operating statement to:
  - a. include line items for at least gross revenue, royalty expenses, production costs and operating income
  - b. for each line use accounting policies permitted by one of Canadian GAAP applicable to publicly accountable enterprises, IFRS, U.S. GAAP or Canadian GAAP applicable to private enterprises, and would apply to those line items if those line items were presented as part of a complete set of financial statements.
- The operating statement describes the financial reporting framework, by reference to subsection 3.11(5) of National Instrument 52-107, and the accounting policies used to prepare the operating statement.
- The auditor has determined the financial reporting framework is a general purpose framework.
- The going concern basis of accounting is not relevant.
  - Refer to [Q&A 2 in chapter 11](#).

#### Reporting implications

- An Other Matter paragraph is required. The comparative operating statement is unaudited.
  - Refer to [Q&A 1 in chapter 3](#) for guidance on Other Matter paragraphs.



## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

*Opinion*

We have audited **the operating statement containing gross revenues, royalty expenses, production costs and operating income of the oil and gas property (Site 123) (the Property)** for the year ended December 31, 20X1, and the notes to the operating statement containing gross revenues, royalty expenses, production costs and operating income of the Property, including a summary of significant accounting policies (together “the **operating statement**”).

In our opinion, the accompanying **operating statement for the year ended December 31, 20X1** is prepared, in all material respects, in accordance with **the financial reporting framework specified in subsection 3.11(5) of National Instrument 52-107 Acceptable Accounting Principles and Auditing Standards for operating statements of an acquired oil and gas property.**

*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 **Operating Statement*** section of our report. We are independent of DEF Entity in accordance with the ethical requirements that are relevant to our audit of the **operating statement** 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.

*Other Matter*

**The operating statement of the Property for the year ended December 31, 20X0, is unaudited.**

*Responsibilities of Management and Those Charged with Governance for the **Operating Statement***

Management of DEF Entity is responsible for the preparation of the **operating statement in accordance with the financial reporting framework specified in subsection 3.11(5) of National Instrument 52-107 Acceptable Accounting Principles and Auditing Standards for operating statements of an acquired oil and gas property**, and for such internal control as management of DEF Entity determines is necessary to enable the preparation of **the operating statement** that is free from material misstatement, whether due to fraud or error.

Those charged with governance of DEF Entity are responsible for overseeing DEF Entity's financial reporting process over the **operating statement** of the Property.

*Auditor's Responsibilities for the Audit of the **Operating Statement***

Our objectives are to obtain reasonable assurance about whether the **operating statement** is 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 this **operating statement**.

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 **operating statement**, 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 DEF Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management of DEF Entity.

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.

[Auditor's signature]

[Auditor's address]

[Date]

**CHAPTER 6**

# Supplementary Information Presented with the Financial Statements

This chapter includes the following Q&As:

- |   |  |            |
|---|--|------------|
| 1 | When supplementary information is presented with the financial statements, how does this affect the report?  | 236        |
| 2 | How does the auditor report on budget information contained in financial statements prepared in accordance with Canadian public sector accounting standards? | 239        |
|   | <b>Appendix</b>  | <b>242</b> |

## Background

In some circumstances, an entity may be required by law, regulation or standards, or may voluntarily choose, to present information, together with the audited financial statements, that is not required by the applicable financial reporting framework. Such information is described in the Glossary of Terms in the *CPA Canada Handbook – Assurance* as “supplementary information.”

Supplementary information may be presented to enhance a user’s understanding of the applicable financial reporting framework or to provide further explanation of specific financial statement items. Normally, supplementary information is presented in either supplementary schedules or as additional notes. For example, the information may be presented in supplementary schedules that disaggregate certain financial statement line items (e.g., a schedule describing the components of selling and administrative expenses) or in additional notes explaining the extent to which the financial statements comply with another financial reporting framework (e.g., a reconciliation to U.S. GAAP).

## 1 When supplementary information is presented with the financial statements, how does this affect the report?

- 1.1 This Q&A provides guidance to assist auditors when applying the requirements in paragraphs 53 and 54 of CAS 700 with respect to supplementary information (see the [Appendix](#) to this chapter for a decision tree that assists in understanding the implications of supplementary information on the report).
- 1.2 This Q&A does not address the circumstances in which the auditor is specifically requested to conduct a separate engagement to report on supplementary information, whether or not presented with the financial statements. In this circumstance, the auditor will conduct the engagement in accordance with the appropriate CASs or Other Canadian Standards.

### Information is not presented with the financial statements

- 1.3 When information is not presented with the audited financial statements, it is not supplementary information and is not discussed in this Q&A. The auditor may need to refer to:
  - CAS 720 if the information meets the definition of “Other Information” in CAS 720 (see [Chapter 14, Other Information](#))

- Section 7500, *Auditor's Consent to the Use of the Auditor's Report in Connection with Designated Documents* if the information is contained in a designated document filed with securities regulatory authorities in connection with the entity's financial statements, such as the Management Discussion and Analysis
- CSOA 5000, *Use of the Practitioner's Communication or Name*, if the practitioner is requested by the entity to consent to the use of the practitioner's communication or name in connection with accompanying information
- CSRS 4460, *Reports on Supplementary Matters Arising from an Audit or a Review Engagement*, if the auditor has been requested to accept an other reporting responsibility having all of the attributes outlined in paragraph 1 of CSRS 4460.

### **Information is required by the financial reporting framework**

- 1.4 When information is presented with the audited financial statements, the auditor needs to determine whether the information is required by the financial reporting framework. If the information is required by the financial reporting framework, that information is not supplementary information, is subject to audit and is covered by the auditor's report on the financial statements.

### **The auditor is requested to audit supplementary information as part of the audit of the financial statements**

- 1.5 In some circumstances, law or regulation may require, or management may request, that the supplementary information be audited as part of the audit of the financial statements. In this case, the auditor would plan the audit so that it is performed to obtain sufficient appropriate audit evidence about the supplementary information.
- 1.6 In forming an opinion on the financial statements, the auditor is required, in accordance with paragraph 53 of CAS 700, to evaluate whether, in the auditor's professional judgment, the supplementary information is nevertheless an integral part of the financial statements (e.g., placed next to the financial statements, referred to by the use of cross-references from the financial statements to the supplementary information, or included in the notes to the financial statements).

- 1.7 Paragraph A80 of CAS 700 states that supplementary information that is covered by the auditor's opinion need not be specifically referred to in the report when the reference to the notes in the description of the statements that comprise the financial statements in the report is sufficient.

### **Unaudited supplementary information is not clearly differentiated from the financial statements**

- 1.8 It is important that unaudited supplementary information presented with the audited financial statements be clearly differentiated from the financial statements so readers do not think the supplementary information is covered by the auditor's opinion. The auditor's evaluation includes, for example, where that information is presented in relation to the financial statements and any audited supplementary information, and whether it is clearly labelled as "unaudited".
- 1.9 Management could present the unaudited supplementary information so as to clearly differentiate it from the audited financial statements, as discussed in paragraph A83 of CAS 700, for example, by:
- removing any cross-references from the financial statements to unaudited supplementary schedules or unaudited notes so that the demarcation between the audited and unaudited information is sufficiently clear; and
  - placing the unaudited supplementary information outside the financial statements or, if that is not possible in the circumstances, at a minimum placing the unaudited notes together at the end of the required notes to the financial statements and clearly labelling them as "unaudited."
- 1.10 Paragraph 53 of CAS 700 requires the auditor's opinion to cover supplementary information that is not required by the applicable financial reporting framework but in the auditor's professional judgment is nevertheless an integral part of the financial statements due to its nature or how it is presented. Accordingly, the supplementary information shall be audited.

### **Management changes how unaudited supplementary information is presented**

- 1.11 When supplementary information can be, but is not, presented in a way that sufficiently and clearly differentiates it from the audited financial statements, paragraph 54 of CAS 700 requires the auditor to ask management to change how the unaudited supplementary information is presented.
- 1.12 If management clearly differentiates the supplementary information, there is no impact on the report since readers will not think the supplementary information is covered by the auditor's opinion.

### Management refuses to change how unaudited supplementary information is presented

- 1.13 When supplementary information can be, but is not, clearly differentiated from the audited financial statements, as discussed in paragraph 1.9 of this Q&A, and management refuses to do so, the auditor is required to identify the unaudited supplementary information and explain in the report that such supplementary information has not been audited. Such an explanation would be made in an Other Matter paragraph in the report.

#### *Other Matter – Supplementary Information*

We draw attention to the fact that the supplementary information included in Schedule X does not form part of the financial statements. We have not audited or reviewed this *supplementary* information and, accordingly, we do not express an opinion, a review conclusion or any other form of assurance on this supplementary information.

### Unaudited supplementary information

- 1.14 Paragraph A84 of CAS 700 states that the fact that supplementary information is unaudited does not relieve the auditor of the responsibilities described in CAS 720.

## 2 How does the auditor report on budget information contained in financial statements prepared in accordance with Canadian public sector accounting standards?

- 2.1 For the purposes of this Q&A, budget information includes planned results or planned amounts as referred to in *Financial Statement Presentation*, paragraphs PS 1201.130-.131 in the *CPA Canada Public Sector Accounting Handbook*, which require the following:
- a. The statement of operations should present a comparison of the results for the accounting period with those originally planned. Planned results should be presented for the same scope of activities and on a basis consistent with that used for actual results.
  - b. The statement of change in net debt should present a comparison of the items that comprise the change in net debt for the accounting period, as well as the change in net debt for the period, with the figures originally planned. Planned amounts should be presented for the same scope of activities and on a basis consistent with that used for actual amounts.

Paragraphs PS 1201.132-.133 provide additional guidance when the scope of financial activity reported in the fiscal plan is not the same as that reported in the financial statements, or when the fiscal plan is not prepared on a basis consistent with that used to report the actual results.

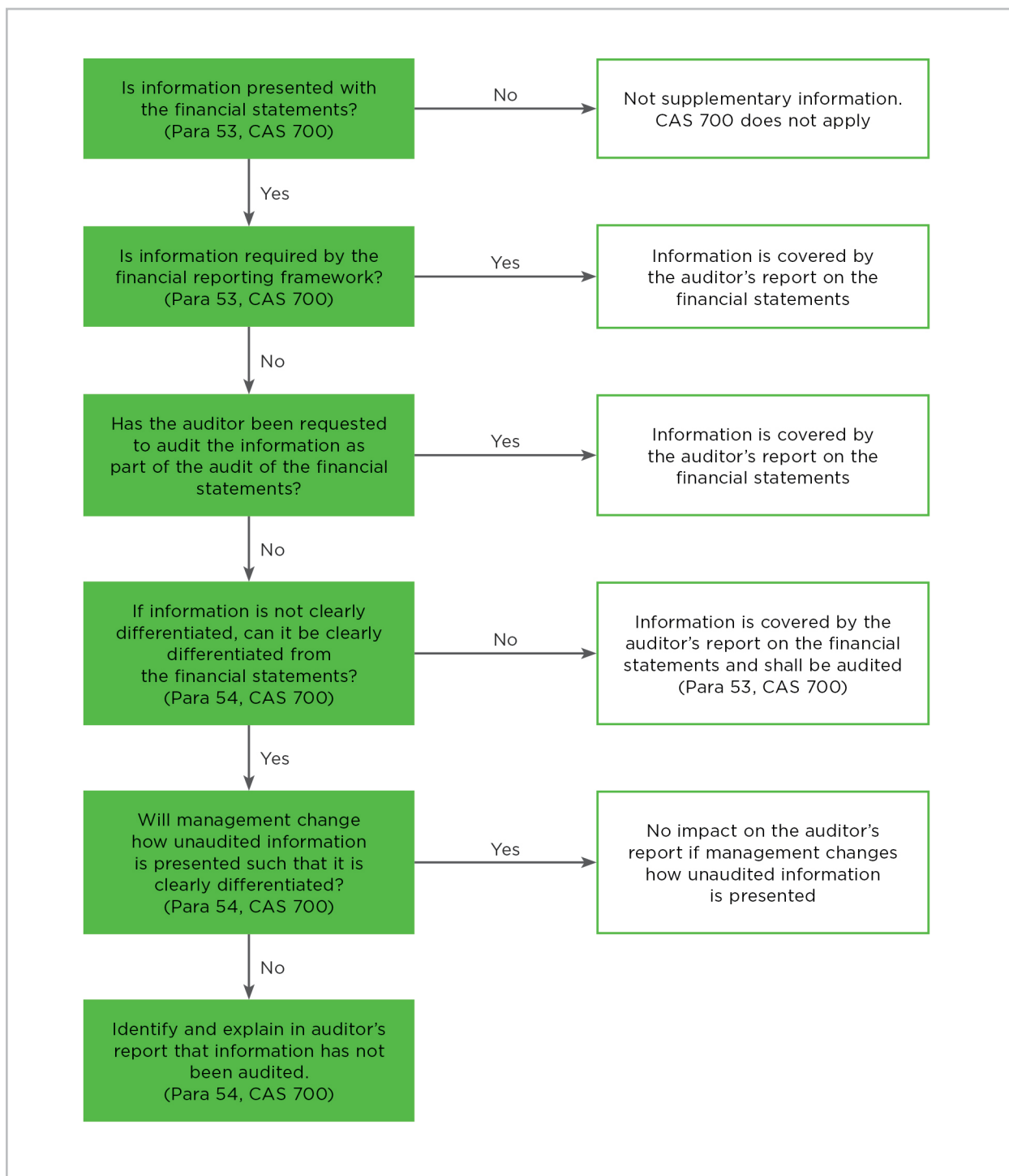
- 2.2 “Supplementary information” is defined in the Glossary of Terms in the *CPA Canada Handbook – Assurance* as: “Information that is presented together with the financial statements that is not required by the applicable financial reporting framework used to prepare the financial statements, normally presented in either supplementary schedules or as additional notes.” Because planned results or planned amounts included in financial statements prepared in accordance with Canadian public sector accounting standards are required by the applicable financial reporting framework, they do not represent supplementary information.
- 2.3 Paragraph A26 of CAS 700, states that the auditor’s opinion covers the complete set of financial statements as defined by the applicable financial reporting framework. Accordingly, the auditor’s opinion would cover comparisons of actual and planned results or planned amounts included in the statement of operations and the statement of change in net debt. It would be inappropriate for planned results or planned amounts to be marked as unaudited. Paragraph 12 of CAS 700 requires the auditor to evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity’s accounting practices, including indicators of possible bias in management’s judgments. This would include evaluating whether the planned results and planned amounts meet the requirements of paragraphs PS 1201.130-.131, including any information provided in the notes to the financial statements or supporting schedules:
- a. concerning differences in the scope of financial activity reported in the financial statements and the fiscal plan; and
  - b. reconciling planned results or planned amounts restated for consistency with the basis used for the financial statements.
- 2.4 The auditor is required to obtain sufficient appropriate audit evidence to express an opinion whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework, which under Canadian public sector accounting standards includes the presentation of planned results and planned amounts. The nature, timing and extent of procedures required to obtain sufficient appropriate audit evidence about planned results and planned amounts is a matter of professional judgment of the auditor.



- 2.5 If the auditor is unable to obtain sufficient appropriate audit evidence with respect to the entity's planned results or planned amounts, if the financial statements do not include a comparison of actual and planned results and planned amounts, or if the comparison does not otherwise meet the requirements of paragraphs PS 1201.130-131, the auditor would refer to CAS 705, in determining the implications for the audit and the auditor's opinion.
- 2.6 When a financial reporting framework does not require the inclusion of planned results or planned amounts in the financial statements, such information included in the financial statements would represent supplementary information and the auditor would refer to paragraphs 53-54 of CAS 700 in determining the possible effects on the auditor's report.

## Appendix

Decision tree to assist in understanding the implications of supplementary information on the report



## CHAPTER 7

# Adopting a New Financial Reporting Framework

This chapter includes the following Q&As:

- 1 When is an entity considered to have “adopted” a new financial reporting framework? 244
- 2 How does the difference between the “comparative financial statements reporting approach” and the “corresponding figures reporting approach” under the CASs affect the auditor’s report on the first financial statements when an entity adopts a new financial reporting framework? 244

### Illustrative Reports

The following Illustrations are included in this chapter:

<b>Introduction to illustrative reports</b>	<b>249</b>
Illustration 1: Comparative financial statements reporting approach – auditor’s report refers to each period for which financial statements are presented	251
Illustration 2: Corresponding figures reporting approach – auditor’s report refers to the current period only	254
Illustration 3: Canadian Accounting Standards for Private Enterprises (ASPE) are adopted for the first time – auditor’s report refers to the current period only	257

## 1 When is an entity considered to have “adopted” a new financial reporting framework?

- 1.1 An entity may be required or may voluntarily decide to adopt a new financial reporting framework. This may be the case when:

Circumstance	Example
An entity using a general purpose financial reporting framework adopts another general purpose financial reporting framework.	For example, an entity preparing financial statements in accordance with Canadian accounting standards for private enterprises adopts International Financial Reporting Standards, or vice-versa.  (Refer to <a href="#">Illustration 1</a> and <a href="#">2</a> in this chapter.)
An entity using a special purpose financial reporting framework adopts a general purpose financial reporting framework.	For example, an entity preparing financial statements using the tax basis of accounting adopts Canadian accounting standards for private enterprises.
An entity using no clearly defined financial reporting framework adopts a general purpose or special purpose financial reporting framework.	For example, an entity for which financial statements have been compiled adopts Canadian accounting standards for private enterprises.  (Refer to <a href="#">Illustration 3</a> in this chapter.)

- 1.2 Adoption of a new financial reporting framework is different from the adoption of a new accounting standard within the same framework and from the selection and application of a new accounting policy within the same framework.

## 2 How does the difference between the “comparative financial statements reporting approach” and the “corresponding figures reporting approach” under the CASs affect the auditor’s report on the first financial statements when an entity adopts a new financial reporting framework?

- 2.1 The distinction between the two reporting approaches (i.e., comparative financial statements reporting approach or corresponding figures reporting approach) discussed below is important when reporting on the first financial statements prepared in accordance with a new financial reporting framework that contain transition provisions requiring the presentation of comparative information, including related notes.

2.2 For example, for an entity with a calendar year end, the new financial reporting framework's transition provisions may require the entity to include the following in the entity's first financial statements:

- financial statements as at and for the year ended December 31, 20X2
- financial statements as at and for the year ended December 31, 20X1
- statement of financial position as at January 1, 20X1 (opening statement of financial position)

The above example will be used to discuss the reporting implications below.

2.3 The auditor may discuss with the entity what reporting approach is to be used for the entity's first financial statements (i.e., the comparative financial statements reporting approach or the corresponding figures reporting approach):

Circumstance	Example	Reference to Guidance
The auditor may be required to report on all financial statement periods presented.	For example, if an obligation arises because the entity is a reporting issuer.	Comparative financial statements reporting approach – Refer to paragraphs 2.3–2.6 of this Q&A and <a href="#">Illustration 1</a> when the auditor's report refers to each period for which the financial statements are presented.
The auditor may have a choice as to the reporting approach and therefore the reporting approach is dependent on what the auditor is engaged to report on.	For example, if the entity is a private entity.	Comparative financial statements reporting approach – Refer to paragraphs 2.3–2.6 of this Q&A and <a href="#">Illustration 1</a> when the auditor's report refers to each period for which the financial statements are presented.
When the auditor has a choice as to the reporting approach, the entity may consider it preferable for the auditor to be engaged to report on all financial statement periods presented rather than to be engaged to report on the current period only, particularly when the auditor determines that the additional procedures to support the auditor's opinion on the comparative financial statements are not significantly different from those required to report on the current period only.		Corresponding figures reporting approach – Refer to paragraphs 2.7–2.11 and <a href="#">Illustration 2</a> and <a href="#">3</a> when the auditor's report refers to the current period only.

### Comparative financial statements reporting approach

- 2.4 When the auditor is engaged to report on all periods presented, using the comparative financial statements reporting approach discussed in [Chapter 4, Section A, Q&A 1](#), the auditor is required to express an audit opinion on the:
- financial statements for the year ended December 31, 20X2
  - financial statements for the year ended December 31, 20X1
  - statement of financial position as at January 1, 20X1
- 2.5 While the auditor may have audited the financial statements for the years ended December 31, 20X1 and December 31, 20X0 prepared in accordance with the old financial reporting framework, the auditor would not have previously audited the financial statements for those periods prepared in accordance with the new financial reporting framework.
- 2.6 When the auditor is engaged to report on all periods presented, in addition to obtaining sufficient appropriate audit evidence to support the auditor's opinion on the financial statements for the year ended December 31, 20X2, the auditor will be required to obtain sufficient appropriate audit evidence to support the auditor's opinion on the financial statements for the year ended December 31, 20X1 and the statement of financial position as at January 1, 20X1 prepared in accordance with the new financial reporting framework for the first time.
- 2.7 The auditor can use the audit evidence obtained in auditing the financial statements for the years ended December 31, 20X1 and December 31, 20X0 prepared in accordance with the old financial reporting framework, if applicable, to obtain sufficient appropriate audit evidence to support the auditor's opinion on the financial statements prepared in accordance with the new financial reporting framework for those periods. As the financial statements are prepared in accordance with the new financial reporting framework, the auditor is required to obtain sufficient appropriate audit evidence to support the auditor's opinion on those financial statements, even when the financial statements prepared in accordance with the new financial reporting framework do not appear to be significantly different from those prepared in accordance with the old financial reporting framework.

### Corresponding figures reporting approach

- 2.8 While the auditor may or may not have audited the financial statements for the years ended December 31, 20X1 and December 31, 20X0 prepared in accordance with the old financial reporting framework, the auditor would not have previously audited the financial statements prepared in accordance with the new financial reporting framework for those periods.
- 2.9 When the auditor's report refers to the current period only, using the corresponding figures reporting approach discussed in [Chapter 4, Section A, Q&A 1](#), there may be an incorrect presumption by readers of the auditor's report on the first financial statements prepared in accordance with the new financial reporting framework that the auditor has previously expressed an opinion on the comparative information.
- 2.10 Unless the auditor has been specifically engaged to perform an audit of the financial statements for the year ended December 31, 20X1 and the statement of financial position as at January 1, 20X1, prepared in accordance with the new financial reporting framework, these financial statements are unaudited. In such a case, the auditor complies with paragraph 14 of CAS 710 which requires that the auditor state in an Other Matter paragraph in the auditor's report that the comparative information is unaudited. The Other Matter paragraph is included in the auditor's report irrespective of whether:
- a. The comparative information is marked as unaudited.
  - b. The notes to the financial statements indicate that the auditor has not audited, and does not express an opinion on, the comparative information.
- 2.11 Paragraph 14 of CAS 710 also indicates that a statement in an Other Matter paragraph referred to in paragraph 2.10 of this Q&A does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements in accordance with paragraph 6 of CAS 510. The auditor's work effort to comply with CAS 510 may not be significantly different than the work effort required to report on all periods presented, as discussed in paragraphs 2.4 to 2.7 of this Q&A. Accordingly, the auditor may wish to discuss with the entity whether it would be more appropriate to report on all periods presented, as discussed in paragraph 2.2 and 2.3 of this Q&A. It is important that the terms of the engagement appropriately reflect the financial statement periods on which the auditor is being engaged to report.

- 2.12 Some auditors may consider whether to make an additional reference in the auditor's report to the fact that the financial statements for the years ended December 31, 20X1 and December 31, 20X0 prepared in accordance with the old financial reporting framework were audited. While such a reference may be factually correct, including it in the auditor's report may be seen to contradict the Other Matter paragraph referred to in paragraph 2.10 of this Q&A. As a result, readers of the auditor's report may misunderstand that the auditor was not engaged to express an opinion on the financial statements for the year ended December 31, 20X1 and the statement of financial position as at January 1, 20X1 prepared in accordance with the new financial reporting framework. Therefore, such a reference has not been made in the Illustrative Reports included in this *Guide*.



## Introduction to illustrative reports

For the purposes of the illustrative reports in this chapter, the following circumstances are assumed, unless indicated otherwise:

Topic and circumstance	Reference to guidance
<b>Type of Entity</b>	
<ul style="list-style-type: none"> <li>The entity under audit is an entity other than a listed entity.</li> </ul>	Chapter 9
<b>Subject Matter</b>	
<ul style="list-style-type: none"> <li>The auditor reports on a complete set of financial statements.</li> </ul>	Chapter 5, Section A, Q&A 2
<b>Opinion</b>	
<ul style="list-style-type: none"> <li>The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate.</li> </ul>	
<b>Financial Reporting Framework</b>	
<ul style="list-style-type: none"> <li>The applicable financial reporting framework is a fair presentation financial reporting framework.</li> </ul>	Chapter 1, Section D, Q&A 1
<ul style="list-style-type: none"> <li>The auditor has determined that the general purpose financial reporting framework is acceptable.</li> </ul>	Chapter 1, Section B, Q&A 2
<b>Ethical Requirements</b>	
<ul style="list-style-type: none"> <li>The auditor has decided to only refer to relevant ethical requirements in Canada that apply to the audit.</li> </ul>	Chapter 10
<b>Going Concern</b>	
<ul style="list-style-type: none"> <li>The auditor has determined that the going concern basis of accounting is relevant.</li> </ul>	Chapter 11
<ul style="list-style-type: none"> <li>No material uncertainty exists related to events or conditions that may cast doubt on the entity’s ability to continue as a going concern.</li> </ul>	
<b>Key Audit Matters</b>	
<ul style="list-style-type: none"> <li>The auditor is not required, and has otherwise not decided, to communicate key audit matters, in accordance with CAS 701.</li> </ul>	
<b>Other Information</b>	
<ul style="list-style-type: none"> <li>The auditor has determined that there is no other information (i.e., the requirements of CAS 720 do not apply.)</li> </ul>	Chapter 14
<b>Responsibility of Management and Those Charged With Governance</b>	
<ul style="list-style-type: none"> <li>The terms of the audit engagement do not include any additional management responsibilities in addition to those in paragraph 6(b) of CAS 210.</li> </ul>	
<ul style="list-style-type: none"> <li>Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.</li> </ul>	Chapter 2, Q&A 3

Topic and circumstance	Reference to guidance
<b>Auditor's Responsibilities</b>	
<ul style="list-style-type: none"><li>The description of the auditor's responsibilities is included within the body of the auditor's report (refer to paragraph 41 of CAS 700).</li></ul>	
<b>Group Audit</b>	
<ul style="list-style-type: none"><li>The audit is not a group audit engagement (i.e., the requirements of CAS 600 do not apply).</li></ul>	
<b>Other Reporting Responsibilities</b>	
<ul style="list-style-type: none"><li>The auditor has no other reporting responsibilities required under law or regulation.</li></ul>	

### **Illustration 1: Comparative financial statements reporting approach – auditor’s report refers to each period for which financial statements are presented**

Please read the Introduction to illustrative reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

#### ***Financial reporting framework:***

The entity transitioned from Canadian accounting standards for private enterprises (ASPE) to International Financial Reporting Standards (IFRSs).

- Refer to [Q&A 1](#).

#### ***Financial statements:***

The financial statements include the following:

- the financial statements for the year ended December 31, 20X2
- the financial statements for the year ended December 31, 20X1
- the statement of financial position as at January 1, 20X1

#### ***Reporting Implications:***

The auditor is using the comparative financial statements reporting approach.

- Refer to [Q&A 2](#).
- Refer to [Chapter 4, Section A, Q&A 1](#).

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

*Opinion*

We have audited the financial statements of ABC Company (the Entity), which comprise the statements of financial position as at December 31, 20X2, December 31, **20X1 and January 1, 20X1**, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the **years** ended December 31, 20X2 **and** December 31, **20X1**, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 20X2, December 31, **20X1 and January 1, 20X1**, and its financial performance and its cash flows for the **years** ended December 31, 20X2 **and** December 31, **20X1** 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 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.

*Responsibilities of Management and Those Charged With Governance for the 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.

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.

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

*Auditor's Responsibilities for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]

## Illustration 2: Corresponding figures reporting approach – auditor’s report refers to the current period only

Please read the Introduction to illustrative reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

### **Financial reporting framework:**

The entity transitioned from International Financial Reporting Standards (IFRSs) to Canadian accounting standards for private enterprises (ASPE), which is a general purpose financial reporting framework.

- Refer to [Q&A 1](#).

### **Financial statements:**

The financial statements include the following:

- the financial statements for the year ended December 31, 20X2
- the financial statements for the year ended December 31, 20X1
- the balance sheet as at January 1, 20X1

As permitted by ASPE, the entity has selected to present the opening balance sheet on the face of the financial statements.

### **Reporting implications:**

The auditor is using the corresponding figures reporting approach.

- Refer to [Q&A 2](#).
- Refer to [Chapter 4, Section A, Q&A 1](#).

The auditor is required to include an Other Matter (OM) paragraph indicating the comparative information is unaudited as the auditor was not engaged to do so.

- Refer to [Chapter 3, Q&A 1](#).

Although the comparative information was audited under IFRSs, it was not audited under ASPE. Accordingly, in addition to the OM paragraph, the auditor decides to include an Emphasis of Matter (EOM) paragraph drawing attention to the note in the financial statements which describes that the entity adopted Canadian accounting standards for private enterprises as the new financial reporting framework.

- Refer to [Chapter 3, Q&A 1](#).

Because both the EOM and OM paragraphs are interrelated, the auditor has decided to combine the paragraphs into one section entitled “Emphasis of Matter – Comparative Information.” Paragraph 9(a) of CAS 706 requires an EOM paragraph include an appropriate heading that includes the term “Emphasis of Matter.”

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

*Opinion*

We have audited the financial statements of ABC Company (the Entity), which comprise the balance sheet as at December 31, 20X2 and the statement of income, statement of retained earnings and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 20X2, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

*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 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 in our audit is sufficient and appropriate to provide a basis for our opinion.

***Emphasis of Matter - Comparative Information***

***We draw attention to Note X in the financial statements which describes that the Entity adopted Canadian accounting standards for private enterprises on January 1, 20X2 with a transition date of January 1, 20X1. These standards were applied retrospectively by management to the comparative information in these financial statements, including the balance sheets as at December 31, 20X1 and January 1, 20X1, and the statement of income, retained earnings and cash flows for the year ended December 31, 20X1, and related disclosures. Our opinion is not modified in respect of this matter.***

***We were not engaged to report on the comparative information, and as such, it is unaudited.***

*Responsibilities of Management and Those Charged With Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, 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.

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.

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

*Auditor's Responsibilities for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]



### **Illustration 3: Canadian Accounting Standards for Private Enterprises (ASPE) are adopted for the first time – auditor’s report refers to the current period only**

Please read the Introduction to illustrative reports. For purposes of this illustrative report, the following additional or different circumstances are assumed:

***Financial reporting framework:***

This is the first year the entity is preparing financial statements in accordance with Canadian accounting standards for private enterprises (ASPE).

- Refer to [Q&A 1](#).

***Reporting implications:***

The auditor is using the corresponding figures reporting approach.

- Refer to [Q&A 2](#).
- Refer to [Chapter 4, Section A, Q&A 1](#).

The auditor is required to include an Other Matter paragraph indicating the comparative information is unaudited. The auditor has decided not to include an EOM paragraph.

- Refer to [Q&A 2](#).

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

### *Opinion*

We have audited the financial statements of ABC Company (the Entity), which comprise the balance sheet as at December 31, 20X2 and the statement of income, retained earnings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 20X2, and results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

### *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 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 in our audit is sufficient and appropriate to provide a basis for our opinion.

### **Comparative Information**

***The financial statements of the Entity for the year ended December 31, 20X1 and the statement of financial position at January 1, 20X1 are unaudited.***

### *Responsibilities of Management and Those Charged With Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, 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.

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.

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

### *Auditor's Responsibilities for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]

## CHAPTER 8

# Summary Financial Statements

This chapter includes the following Q&As:

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3	Do the audited financial statements have to be available to the intended users of the summary financial statements?	263
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9	What are the reporting implications for the auditor's report on a complete set of financial statements and the reporting implications for the report on the summary financial statements when documents, contain, or accompany the summary financial statements?	272

## **Illustrative Reports**

The following Illustrations are included in this chapter:

<b>Introduction to illustrative reports</b>	<b>275</b>
Illustration 1: Summary financial statements derived from audited financial statements prepared in accordance with Canadian accounting standards for not-for-profit organizations	277

## 1 What are summary financial statements?

- 1.1 The Glossary of Terms in the *CPA Canada Handbook – Assurance* defines “summary financial statements” as historical financial information that is derived from financial statements but that contain less detail than the financial statements themselves. Notwithstanding the fact summary financial statements are derived from financial statements, they still provide a structured representation of the entity’s economic resources or obligations at a point in time or the changes therein, for a period of time, consistent with the financial statements. The term “financial statements” ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement. Therefore, references to “financial statements” in this chapter also apply to a single financial statement.
- 1.2 An entity may be required to present its financial statements in a form prescribed, for example, by a regulator. The form may require more detailed information to be presented than is necessary to comply with the applicable financial reporting framework, while not conflicting with such framework. The entity may also decide to present its financial statements in a less detailed format than the prescribed form, for example for users other than the regulator, while still complying with the requirements of the applicable financial reporting framework. These less-detailed financial statements are not summary financial statements; they are financial statements presented in a different format in accordance with the same applicable financial reporting framework. As a result, CAS 700, and if applicable, CAS 800 apply.
- 1.3 If the less-detailed financial statements are prepared in accordance with a general purpose financial reporting framework for specific use, the auditor reports on such financial statements in accordance with CAS 700. The auditor may consider adding the Other Matter paragraph referred to in [Chapter 1, Section B, Q&A 1](#) in this *Guide*, stating that the auditor’s report is intended solely for the intended users.

If the auditor is requested to report on summary financial statements, the auditor is required to comply with CAS 810.

## 2 When may it not be appropriate to accept an engagement to report on summary financial statements?

- 2.1 It is not appropriate for the auditor to accept an engagement to report on summary financial statements when the auditor has not audited the financial statements; being the complete set of financial statements as determined by the requirements of the applicable financial reporting framework, or the single financial statement (refer to [Q&A 1](#)).
- 2.2 Because summary financial statements by their nature contain aggregated information and limited disclosure, there is an increased risk that they may not contain the information necessary so as not to be misleading in the circumstances. This risk increases when criteria used for the preparation of summary financial statements are not established by an authorized or recognized standards setting organization or by law or regulation. Therefore, before accepting an engagement to report on summary financial statements, paragraph 6(a) of CAS 810 requires the auditor to determine whether the applied criteria are acceptable. Paragraph A3 of CAS 810 indicates that the preparation of summary financial statements requires management to determine the information that needs to be reflected in the summary financial statements so that they are consistent, in all material respects, with or represent a fair summary of the audited financial statements.
- 2.3 In Canada, there are currently no generally recognized established criteria for preparing summary financial statements. As a result, when summary financial statements are required to be prepared, often either:
- a. management has to develop the criteria to apply; or
  - b. management has to make significant interpretations when applying established criteria (for example, in legislation or regulation) because the criteria are not specific enough for management to determine what information to include in the summary financial statements.

In these circumstances, the risk that summary financial statements may be misleading may be higher, and determining the acceptability of the applied criteria will be more challenging. Refer to [Q&A 4](#) in this chapter for a discussion of acceptable criteria.

### 3 Do the audited financial statements have to be available to the intended users of the summary financial statements?

- 3.1 Paragraph 6(b)(ii) of CAS 810 requires that, before accepting an engagement to report on summary financial statements, the auditor obtain the agreement of management that it acknowledges and understands its responsibility to make the audited financial statements available to the intended users of the summary financial statements without undue difficulty (or, if law or regulation provides that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements, to describe that law or regulation in the summary financial statements).
- 3.2 Paragraph A8 of CAS 810 provides factors that may affect the auditor's evaluation of whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty. These factors are whether:
- a. the summary financial statements describe clearly from whom or where the audited financial statements are available;
  - b. the audited financial statements are on public record; or
  - c. management has established a process by which the intended users of the summary financial statements can obtain ready access to the audited financial statements.
- 3.3 Paragraph 8(b) of CAS 810 requires the auditor, when summary financial statements are not accompanied by the audited financial statements, to evaluate whether the summary financial statements describe clearly:
- a. from whom or where the audited financial statements are available; or
  - b. the law or regulation that specifies that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements.
- 3.4 Accordingly, audited financial statements have to be available to intended users of the summary financial statements unless law or regulation:
- a. specifies that audited financial statements need not be available; and
  - b. establishes criteria for preparation of the summary financial statements.



## 4 What are acceptable criteria for the preparation of summary financial statements and are they required to be disclosed?

- 4.1 Paragraph A5 of CAS 810 states that criteria established by an authorized or recognized standards setting organization or by law or regulation may be presumed to be acceptable, similar to the case of financial statements, as discussed in CAS 210.
- 4.2 Paragraph A6 of CAS 810 states that where established criteria for the preparation of summary financial statements do not exist, criteria may be developed by management, for example, based on practice in a particular industry. Criteria that are acceptable in these circumstances (i.e., when established criteria do not exist) will result in summary financial statements that:
- a. adequately disclose their summarized nature and identify the audited financial statements;
  - b. clearly describe from whom or where the audited financial statements are available or, if law or regulation provides that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements, that law or regulation;
  - c. adequately discloses the applied criteria;
  - d. agree with or can be recalculated from the related information in the audited financial statements; and
  - e. in view of the purpose of the summary financial statements, contain the information necessary, and are at an appropriate level of aggregation, so as not to be misleading in the circumstances.
- 4.3 Management is responsible for determining the nature and extent of information that needs to be reflected in the summary financial statements. Management will use judgment in developing criteria that are acceptable.
- 4.4 Paragraph 6(a) of CAS 810 requires the auditor to determine whether the applied criteria are acceptable. In evaluating the acceptability of management's applied criteria in relation to paragraph A6 of CAS 810, the auditor may consider whether the summary financial statements include:
- a. a summary financial statement for each of the financial statements in the complete set of financial statements;
  - b. the major subtotals and totals from the complete set of financial statements;

- c. information necessary to achieve fair summarization (or consistency, in all material respects), of the complete set of financial statements;
  - d. a description of from whom or where the audited financial statements are available;
  - e. a description of the criteria applied in the preparation of the summary financial statements; and
  - f. information from notes to the complete set of financial statements dealing with matters having a pervasive or otherwise significant effect on the summary financial statements, such as contingencies and subsequent events.
- 4.5 Notwithstanding that management may not have a requirement to disclose the applied criteria, paragraph A6 of CAS 810 indicates that **acceptable** criteria will result in summary financial statements that **adequately disclose** the applied criteria and therefore paragraph 8(c) of CAS 810 requires the auditor to evaluate whether the summary financial statements **adequately disclose** the acceptable applied criteria.

As the auditor is required to determine whether the applied criteria is acceptable (refer to paragraphs 4.2 and 4.4 above) and evaluate whether the acceptable applied criteria is disclosed in the summary financial statements, it is expected the summary financial statements will disclose the applied criteria, or the auditor would not have accepted the engagement or would have to conclude that a misstatement related to qualitative disclosures exists.

- 4.6 When the applied criteria are set out in law or regulation, management may have made significant interpretations in applying the criteria in the preparation of the summary financial statements. For example, criteria prescribed in regulation for the preparation of summary financial statements may only set out certain minimum contents for the summary financial statements and management may have provided more detail in the summary financial statements than required by the regulation, for which it has made significant interpretations. The auditor may consider the significant interpretations made when determining whether the applied criteria is acceptable (refer to paragraphs 4.2 and 4.4 above) and when evaluating whether the summary financial statements adequately disclose the applied criteria. Furthermore, the auditor may request that management disclose in a note to the summary financial statements the significant interpretations of the applied criteria.

## 5 What impact does the report on the audited financial statements have on the report on the summary financial statements?

5.1 When the auditor is satisfied that the summary financial statements are a fair summary of (or consistent in all material respects, with), the audited financial statements, in accordance with the applied criteria and the auditor's report on the audited financial statements includes the following modifications and reporting changes, the report on the summary financial statements is impacted as follows:

Modifications to the audit opinion	Impact to the report on the summary financial statements
<ul style="list-style-type: none"> <li>a qualified opinion in accordance with CAS 705</li> </ul> <p>[CAS 810, paragraph 19(a)] (Refer to <a href="#">Chapter 4</a>)</p>	<ul style="list-style-type: none"> <li>State that the auditor's report on the audited financial statements includes a qualified opinion. [CAS 810, paragraph 19(i)]</li> <li>Describe the basis for the qualified opinion on the audited financial statements. [CAS 810, paragraph 19(ii)(a)] <ul style="list-style-type: none"> <li>Paragraph A22 of CAS 810 indicates that the descriptions are intended to convey the nature of the matter(s) and need not repeat the corresponding text in the auditor's report on the audited financial statements in its entirety.</li> </ul> </li> <li>Describe the effect thereof, if any, on the summary financial statements. [CAS 810, paragraph 19(ii)(a)]</li> </ul>
<ul style="list-style-type: none"> <li>an adverse opinion in accordance with CAS 705</li> </ul> <p>[CAS 810, paragraph 20] (Refer to <a href="#">Chapter 4</a>)</p>	<ul style="list-style-type: none"> <li>State that the auditor's report on the audited financial statements includes an adverse opinion. [CAS 810, paragraph 20(a)]</li> <li>Describe the basis for the adverse opinion on the audited financial statements. [CAS 810, paragraph 20(b)]</li> <li>State that, as a result of the adverse opinion on the audited financial statements, it is inappropriate to express an opinion on the summary financial statements. [CAS 810, paragraph 20(c)]</li> </ul>
<ul style="list-style-type: none"> <li>a disclaimer of opinion in accordance with CAS 705</li> </ul> <p>[CAS 810, paragraph 20] (Refer to <a href="#">Chapter 4</a>)</p>	<ul style="list-style-type: none"> <li>State that the auditor's report on the audited financial statements includes a disclaimer of opinion. [CAS 810, par. 20(a)]</li> <li>Describe the basis for the disclaimer of opinion on the audited financial statements. [CAS 810, paragraph 20(b)]</li> <li>State that, as a result of the disclaimer of opinion on the audited financial statements, it is inappropriate to express an opinion on the summary financial statements. [CAS 810, paragraph 20(c)]</li> </ul>

Report changes	Impact to the report on the summary financial statements
<ul style="list-style-type: none"> <li>an Emphasis of Matter paragraph in accordance with CAS 706</li> </ul> <p>[CAS 810, paragraph 19(b)] (Refer to <a href="#">Chapter 3</a>)</p>	<ul style="list-style-type: none"> <li>State that the auditor's report on the audited financial statements includes an Emphasis of Matter paragraph. [CAS 810, paragraph 19(i)]</li> <li>Describe the matter referred to in the Emphasis of Matter paragraph. [CAS 810, paragraph 19(ii)(b)] <ul style="list-style-type: none"> <li>Paragraph A22 of CAS 810 indicates that the descriptions are intended to convey the nature of the matter(s) and need not repeat the corresponding text in the auditor's report on the audited financial statements in its entirety.</li> </ul> </li> <li>Describe the effect(s) therefore, if any, on the summary financial statements. [CAS 810, paragraph 19(ii)(b)]</li> </ul>
<ul style="list-style-type: none"> <li>an Other Matter paragraph in accordance with CAS 706</li> </ul> <p>[CAS 810, paragraph 19(b)] (Refer to <a href="#">Chapter 3</a>)</p>	<ul style="list-style-type: none"> <li>State that the auditor's report on the audited financial statements includes an Other Matter paragraph. [CAS 810, paragraph 19(ii)(b)]</li> <li>Describe the matter referred to in the Other Matter paragraph in the auditor's report on the audited financial statements. [CAS 810, paragraph 19(ii)(b)] <ul style="list-style-type: none"> <li>Paragraph A22 of CAS 810 indicates that the descriptions are intended to convey the nature of the matter(s) and need not repeat the corresponding text in the auditor's report on the audited financial statements in its entirety.</li> </ul> </li> <li>Describe the effect(s) therefore, if any, on the summary financial statements. [CAS 810, paragraph 19(ii)(b)]</li> </ul>
<ul style="list-style-type: none"> <li>a Material Uncertainty Related to Going Concern section in accordance with CAS 570</li> </ul> <p>[CAS 810, paragraph 19(c)] (Refer to <a href="#">Chapter 11</a>)</p>	<ul style="list-style-type: none"> <li>State that the auditor's report on the audited financial statements includes a Material Uncertainty Related to Going Concern section. [CAS 810, paragraph 19(i)]</li> <li>Describe the matter referred to in the Material Uncertainty Related to Going Concern section in the auditor's report on the audited financial statements. [CAS 810, par. 19(i)(b)] <ul style="list-style-type: none"> <li>Paragraph A22 of CAS 810 indicates that the descriptions are intended to convey the nature of the matter(s) and need not repeat the corresponding text in the auditor's report on the audited financial statements in its entirety.</li> </ul> </li> <li>Describe the effect(s) therefore, if any, on the summary financial statements. [CAS 810, paragraph 19(i)(b)]</li> </ul>

Report changes	Impact to the report on the summary financial statements
<ul style="list-style-type: none"> <li>communication of key audit matters in accordance with CAS 701</li> </ul> <p>[CAS 810, paragraph 19(d)]</p>	<ul style="list-style-type: none"> <li>State that the auditor's report on the audited financial statements includes a communication of key audit matters.               <ul style="list-style-type: none"> <li>Paragraph A21 of CAS 810 indicates that the auditor is not required to describe the individual key audit matter(s) in the auditor's report on the summary financial statements.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>a statement that describes an uncorrected material misstatement of the other information in accordance with CAS 720</li> </ul> <p>[CAS 810, paragraph 19(e)]</p> <p>(Refer to <a href="#">Chapter 14</a>)</p>	<ul style="list-style-type: none"> <li>State that the auditor's report on the audited financial statements includes a statement that describes an uncorrected material misstatement of the other information. [CAS 810, paragraph 19(i)]</li> <li>Describe the uncorrected material misstatement of the other information. [CAS 810, paragraph 19(ii)(c)]               <ul style="list-style-type: none"> <li>Paragraph A22 of CAS 810 indicates that the descriptions are intended to convey the nature of the matter(s) and need not repeat the corresponding text in the auditor's report on the audited financial statements in its entirety.</li> </ul> </li> <li>Describe the effect(s) thereof, if any, on the information included in a document containing the summary financial statements. [CAS 810, paragraph 19(ii)(c)]</li> </ul>

## 6 What are the reporting implications on the report on summary financial statements which are derived from special purpose financial statements?

- 6.1 CAS 810 applies to audits of summary financial statements derived from financial statements audited in accordance with the CASs by that same auditor. As the CASs apply to audits of financial statements prepared in accordance with both general purpose and special purpose frameworks, CAS 810 applies to audits of summary financial statements derived from either general purpose or special purpose financial statements.
- 6.2 Paragraph 14 of CAS 800 requires the auditor's report on financial statements prepared in accordance with a special purpose framework to include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable

for another purpose. Refer to [Q&A 5](#) of this chapter for implications that an Emphasis of Matter paragraph contained in the report of the audited financial statements has on the report on the summary financial statements.

- 6.3 Furthermore, the auditor's report on financial statements prepared in accordance with a special purpose framework may also include an Other Matter paragraph indicating that the report is restricted for use and/or distribution (see [Chapter 1, Section C, Q&A 1](#)). This may be an extension of the Emphasis of Matter paragraph referred to above or may be a separate Other Matter paragraph. Refer to [Q&A 5](#) of this chapter for implications that an Other Matter paragraph contained in the report of the audited financial statements has on the report on the summary financial statements.
- 6.4 Paragraph 22 of CAS 810 also requires that when the auditor's report on the audited financial statements:
- alerts readers that the audited financial statements are prepared in accordance with a special purpose financial reporting framework (Emphasis of Matter paragraph referred to above) or
  - restricts the use and/or distribution of the auditor's report on the audited financial statements (Other Matter paragraph referred to above)

the auditor is required to include a similar alert and/or restriction in the auditor's report on the summary financial statements.

- 6.5 The following is an example that meets the requirements of paragraph 22 of CAS 810:

*Emphasis of Matter-Basis of Accounting*

Our auditor's report dated [date] on the audited financial statements included an Emphasis of Matter paragraph drawing attention to the note to the financial statements that described the basis of accounting. The audited financial statements were prepared to assist ABC Company in meeting the requirements of Regulator DEF. As a result, the audited financial statements may not have been suitable for another purpose.

Because the summary financial statements are derived from the audited financial statements, the summary financial statements also may not be suitable for another purpose.

Our opinion on the summary financial statements is not modified in respect of this matter.

*Restriction on Use [and Distribution]*

Our auditor's report dated [date] on the audited financial statements included an Other Matter paragraph restricting the use [and distribution] of the auditor's report. Accordingly, our report on the summary financial statements is also intended solely for use by the board of directors of the Entity and should not be used by [or distributed to] parties other than the board of directors of the Entity.

## **7 What are the reporting implications on the summary financial statements when comparative information is presented in the audited financial statements?**

- 7.1 Paragraph A24 of CAS 810 states that if the audited financial statements contain comparative information, there is a presumption that the summary financial statements will also contain comparative information. The remainder of this Q&A discusses the situations when comparative information is presented in the audited financial statements.

### **Summary financial statements contain comparative information**

- 7.2 If the summary financial statements contain comparative information, there are no reporting implications unless the comparative information was reported on by another auditor (refer to [Q&A 8](#)) or the comparative information is unaudited (refer to [Q&A 5](#)).

### **Summary financial statements do not contain comparative information**

- 7.3 If the summary financial statements do not contain comparative information, paragraph 23 of CAS 810 requires the auditor to determine whether such omission is reasonable in the circumstances of the engagement.
- 7.4 Circumstances that may affect the determination of reasonability of the omission include:
- the nature and objective of the summary financial statements
  - the applied criteria
  - the information needs of the intended users of the summary financial statements
- 7.5 If the omission of comparative information in the summary financial statements is reasonable in the circumstances of the engagement, then there are no reporting implications.

- 7.6 If the omission of comparative information in the summary financial statements is not reasonable in the circumstances of the engagement, then paragraph 23 of CAS 810 requires the auditor to determine the effect of an unreasonable omission on the auditor's report on the summary financial statements.

## **8 What are the reporting implications when the comparative information presented in the summary statements is reported on by another auditor?**

- 8.1 Paragraph 24 of CAS 810 states that if the comparative information presented in the summary financial statements was reported on by another auditor, the auditor's report on the summary financial statements shall also contain the matters that CAS 710 requires the auditor to include in the auditor's report on the audited financial statements.

As a result, in addition to referring to [Q&A 5](#) in this chapter, the auditor refers to [Chapter 4, Section A, Q&A 1](#) for matters that CAS 710 requires.

## **9 What are the reporting implications for the auditor's report on a complete set of financial statements and the reporting implications for the report on the summary financial statements when documents, contain, or accompany the summary financial statements?**

- 9.1 [Chapter 14, Q&A 1](#) of this *Guide* defines other information as:

Financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's "annual report".

- 9.2 [Chapter 14, Q&A 1](#) of this *Guide* defines an entity's "annual report" as:

A document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters.



- 9.3 If a document contains summary financial statements and the report thereon, but that document **does not** include, incorporate by reference or accompany the complete set of financial statements:

#### Report on complete set of financial statements

The document would not meet the characteristics of an annual report (refer to [Chapter 14 Q&A 1](#)) because the complete set of financial statements are not included in, or incorporated by reference into, or accompanying, the document.

#### Report on the summary financial statements

CAS 810 requires the auditor to read the information included in the document to consider whether there is a material inconsistency between that information and the summary financial statements.

While CAS 720 does not apply when reporting on summary financial statements, when some or all of the same matters in the information in the document has already been subject to procedures under CAS 720 related to the complete set of financial statements, CAS 810 indicates that work may be adequate for the purposes of satisfying the auditor's responsibilities under CAS 810 on that particular information.

Alternatively, when some or all of the information included in the document deals with different matters, the auditor may still find CAS 720 helpful, for example, in determining the appropriate action to respond to management's refusal to make necessary revisions to the information in the document containing the summary financial statements and report thereon.

- 9.4 If a document contains summary financial statements and that document also includes or incorporates by reference, or accompanies the complete set of financial statements:

#### Report on complete set of financial statements

If that document meets the characteristics of an annual report (refer to [Chapter 14, Q&A 1](#)), including that the auditor's report is either included in, incorporated by reference, or accompanies the document, then the document would meet the definition of an annual report and the responsibilities and reporting implications for "other information" apply.

See [Chapter 14](#).

#### Report on the summary financial statements

CAS 810 requires the auditor to read the other information included in the document to consider whether there is a material inconsistency between that information and the summary financial statements.

While CAS 720 does not apply when reporting on summary financial statements, when some or all of the same matters in the information in the document has already been subject to procedures under CAS 720 related to the complete set of financial statements, CAS 810 indicates that work may be adequate for purposes of satisfying the auditor's responsibilities under CAS 810 on that particular information.

Alternatively, when some or all of the information included in the document deals with different matters, the auditor may still find CAS 720 helpful, for example, in determining the appropriate action to respond to management's refusal to make necessary revisions to the information in the document containing the summary financial statements and report thereon.

- 9.5 If a document contains the summary financial statements but does not contain the report on the summary financial statements, there are no obligations for the auditor under CAS 810 related to the information in the document. However, there may be obligations under CSOA 5000 if, for example, the entity requests the auditor to consent to the use of the auditor's name in connection with the document or if the auditor becomes aware of the inappropriate use of the auditor's communication or name.

## Introduction to illustrative reports

For the purposes of the illustrative reports in this chapter, the following circumstances are assumed, unless indicated otherwise:

Topic and circumstance	Reference to guidance
<b>Type of Entity</b>	
<ul style="list-style-type: none"> <li>The entity under audit is an entity other than a listed entity.</li> </ul>	Chapter 9
<b>Subject Matter</b>	
<ul style="list-style-type: none"> <li>The auditor reports on a complete set of financial statements.</li> </ul>	Chapter 5, Section A, Q&A 2
<b>Opinion</b>	
<ul style="list-style-type: none"> <li>The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate.</li> </ul>	
<b>Financial Reporting Framework</b>	
<ul style="list-style-type: none"> <li>The applicable financial reporting framework is a fair presentation financial reporting framework.</li> </ul>	Chapter 1, Section D, Q&A 1
<ul style="list-style-type: none"> <li>The auditor has determined that the general purpose financial reporting framework is acceptable.</li> </ul>	Chapter 1, Section B, Q&A 2
<b>Ethical Requirements</b>	
<ul style="list-style-type: none"> <li>The auditor has decided to only refer to relevant ethical requirements in Canada that apply to the audit.</li> </ul>	Chapter 10
<b>Going Concern</b>	
<ul style="list-style-type: none"> <li>The auditor has determined that the going concern basis of accounting is relevant.</li> </ul>	Chapter 11
<ul style="list-style-type: none"> <li>No material uncertainty exists related to events or conditions that may cast doubt on the entity’s ability to continue as a going concern.</li> </ul>	
<b>Key Audit Matters</b>	
<ul style="list-style-type: none"> <li>The auditor is not required, and has otherwise not decided, to communicate key audit matters, in accordance with CAS 701.</li> </ul>	

Topic and circumstance	Reference to guidance
<b>Other Information</b>	
<ul style="list-style-type: none"> <li>N/A - The auditor would not report in accordance with CAS 720 in a report on summary financial statements. However, in fulfilling the requirements of CAS 810.14, to read information in document(s) containing the summary financial statements and the auditor's report thereon, to consider whether there is a material inconsistency, the guidance in Chapter 14 may be helpful.</li> </ul>	
<b>Responsibility of Management and Those Charged with Governance</b>	
<ul style="list-style-type: none"> <li>The terms of the audit engagement do not include any additional management responsibilities in addition to those in paragraph 6(b) of CAS 210.</li> <li>Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.</li> </ul>	Chapter 2, Q&A 3
<b>Auditor's Responsibilities</b>	
<ul style="list-style-type: none"> <li>The description of the auditor's responsibilities is included within the body of the auditor's report (refer to paragraph 41 of CAS 700).</li> </ul>	
<b>Group Audit</b>	
<ul style="list-style-type: none"> <li>The audit is not a group audit engagement (i.e., the requirements of CAS 600 do not apply).</li> </ul>	
<b>Other Reporting Responsibilities</b>	
<ul style="list-style-type: none"> <li>The auditor has no other reporting responsibilities required under law or regulation.</li> </ul>	

### **Illustration 1: Summary financial statements derived from audited financial statements prepared in accordance with Canadian accounting standards for not-for-profit organizations**

Please read the Introduction to illustrative reports. For purposes of this illustrative report, the following additional circumstances are assumed:

#### **Summary Financial Statements:**

- Note Y to the summary financial statements indicates that:
  - The summary financial statements are derived from the complete set of financial statements prepared in accordance with Canadian accounting standards for not-for-profit organizations.
  - The summary financial statements are summarized in accordance with the criteria disclosed in Note X to the summary financial statements.
- Comparative information is presented in the summary financial statements.

#### **Audited Financial Statements:**

- The opinion on the audited financial statements was qualified due to a scope limitation related to the completeness of revenue from fundraising activities.
  - Refer to [Q&A 5](#) for a modified opinion on the audited financial statements.
- The report on the audited financial statements contained an Other Matter paragraph related to a predecessor auditor having audited the comparative information included in the audited financial statements.
  - Refer to [Q&A 5](#) for an Other Matter paragraph referring to the predecessor auditor in the report on the audited financial statements.

#### **Reporting Implications:**

- This is the first year the auditor has been engaged to report on the summary financial statements.
- A predecessor auditor reported on the comparative information included in the summary financial statements.
  - Refer to paragraph 24 of CAS 810.
- The auditor's report on the summary financial statements is dated later than the date of the auditor's report on the audited financial statements.
  - Refer to paragraph 12 of CAS 810.

## REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

*Opinion*

The summary financial statements, which comprise the summary statement of financial position as at December 31, 20X1, and the summary statements of operations, changes in net assets and cash flows for the year then ended, and related notes, are derived from the audited financial statements of ABC Company (the Entity) for the year ended December 31, 20X1.

In our opinion, the accompanying summary financial statements are a fair summary<sup>1</sup> of the financial statements, in accordance with the criteria disclosed in Note X to the summary audited financial statements. However, we were not able to determine if any adjustments to the summary financial statements were necessary for the reasons described in *The Audited Financial Statements and Our Report Thereon* section of this audit report.

*Summary Financial Statements*

The summary financial statements do not contain all the disclosures required by Canadian accounting standards for not-for-profit organizations. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the Entity's audited financial statements and the auditor's report thereon.

The summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial statements.

*The Audited Financial Statements and Our Report Thereon*

In our report dated February 15, 20X2:

- We expressed a qualified audit opinion on the audited financial statements because we were not able to obtain sufficient appropriate audit evidence regarding the completeness of revenue from fundraising activities.
- We included an Other Matter paragraph referring to the report of the predecessor auditor for the information presented for the year ended December 31, 20X0.

*Management's Responsibility for the Summary Financial Statements*

Management is responsible for the preparation of the summary financial statements in accordance with the criteria disclosed in Note X to the summary financial statements.

*Auditor's Responsibility*

Our responsibility is to express an opinion on whether the summary financial statements are a fair summary<sup>1</sup> of the audited financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, *Engagements to Report on Summary Financial Statements*.

*Comparative Information*

The summary financial statements for the year ended December 31, 20X0, were reported on by another auditor who expressed an unmodified opinion on those summary financial statements on March 31, 20X1.

[Auditor's signature]

[Auditor's address]

[Date]

1 Or "...are consistent, in all material respects, with the...".

## CHAPTER 9

# Listed Entities

This chapter includes the following Q&As:

- |   |   |     |
|---|---|-----|
| 1 | Which entities are considered to be listed entities?                          | 280 |
| 2 | What are the additional reporting implications for audits of listed entities? | 281 |

## 1 Which entities are considered to be listed entities?

- 1.1 The Glossary of Terms in the *CPA Canada Handbook—Assurance* defines listed entity as follows:

An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.

- 1.2 In Canada, there are a limited number of recognized stock exchanges under securities legislation. There are currently four such exchanges in Canada:
- Toronto Stock Exchange
  - TSX Venture Exchange
  - Canadian Securities Exchange
  - Aequitas NEO Exchange
- 1.3 The determination of whether a stock exchange outside of Canada is “recognized” may include consideration of matters such as the following:
- Whether the exchange is a public exchange.
  - Whether there is a generally accepted framework, criteria or standards that govern admission to listing on the exchange (e.g., “listing rules”).
  - Whether the exchange on which entities’ stock or debt are traded sets forth trading related regulations, for example, those in respect of offering securities to the public, announcements etc.
- 1.4 The determination date of whether or not the entity is listed is based on the facts and circumstances as at the date of the audit report. However, the auditor would typically determine whether an entity is listed or expected to be listed by the anticipated audit report date during the client acceptance / reacceptance stage of the audit to determine the impact on the applicable performance requirements.
- 1.5 A subsidiary of a listed entity would not be considered to be a listed entity on its own unless it meets the definition in paragraph 1.1.
- 1.6 The definition of “listed entity” in the standard refers to the shares, stock or debt of the entity being marketed under the regulations of a recognized stock exchange. In the context of an initial public offering (IPO), the listing of an entity’s IPO securities on a recognized stock exchange in Canada is typically



conditional on a final prospectus for the IPO securities being filed, a receipt for the final prospectus being issued by the securities regulator and the IPO securities being issued at the closing of the IPO.

- 1.7 For the purpose of the definition, the IPO issuer would not be a “listed entity” until these conditions are met and the IPO securities begin trading on the recognized stock exchange. In this circumstance, the solicitation of expressions of interest from prospective purchasers prior to issuance of a receipt for the final IPO prospectus would not meet the alternative criteria of being “marketed under the regulations of a recognized stock exchange” for the purpose of the definition of listed entity. This is because the sale of such IPO securities is not yet permitted under applicable securities law in Canada until a receipt for the final prospectus is issued.<sup>17</sup>
- 1.8 Some entities have debt listed on a recognized Canadian or foreign stock exchange. For example, some Government or Government entities have debt listed on foreign stock exchanges. Accordingly, they will fall into the definition of a listed entity.

## 2 What are the additional reporting implications for audits of listed entities?

- 2.1 The following are specific reporting requirements in the auditor’s report when the auditor is engaged to audit a listed entity:
  - a. Key Audit Matters – See [Chapter 13](#). Paragraph C5A of CAS 700 requires the auditor to communicate key audit matters in the auditor’s report in accordance with CAS 701 for audits of complete sets of general purpose financial statements of:
    - entities listed on the Toronto Stock Exchange, excluding listed entities required to comply with National Instrument 81-106, *Investment Fund Continuous Disclosure*, for periods ending on or after December 15, 2020.
    - other listed entities, excluding listed entities required to comply with National Instrument 81-106, *Investment Fund Continuous Disclosure*, for periods ending on or after December 15, 2022.
  - b. Other Information – See [Chapter 14, Q&A 2](#) for further details. Paragraph 22(b)(ii) of CAS 720 requires an identification of other information, if any, expected to be obtained after the date of the auditor’s report.

<sup>17</sup> Note that securities regulators and recognized stock exchanges may have different definitions and interpretations of “listed entity”, “listed” or “marketed” for the purpose of particular provisions in their rules, regulations and policies.

- c. Auditor's Responsibilities - Independence. Paragraph C40 (b) of CAS 700 requires to state that the auditor provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicates with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.
  - d. Name of Engagement Partner - Paragraph 46 of CAS 700 requires the name of the engagement partner be included in the auditor's report unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat. In the rare circumstances that the auditor intends not to include the name of the engagement partner in the auditor's report, the auditor shall discuss this intention with those charged with governance to inform the auditor's assessment of the likelihood and severity of a significant personal security threat.
- 2.2 The purpose of communicating the name of the engagement partner is to provide greater transparency into who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm. When using a comparative financial statements reporting approach, there may be a change in partner in the current year, without a change of firm. In this case, only the engagement partner of the audit of the current period takes responsibility and is named in the auditor's report, even when the report refers to two periods. See [Chapter 4, Section B](#).
- 2.3 All the additional reporting implications for audits of listed entities, with the exception of key audit matters, apply to both complete sets of financial statements and audits of single financial statements or a specific element of financial statements (audits of historical financial information other than financial statements). CAS 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, only applies to complete sets of general purpose financial statements or when the auditor otherwise decides to communicate key audit matters or when law or regulation requires the auditor to communicate key audit matters. See the following Application and Other Explanatory Material References:
- a. Other Information - See paragraphs A17 of CAS 800 and A21 of CAS 805.
  - b. Auditor's Responsibilities - Independence - See paragraph A14 of CAS 800 and A16 of CAS 805.
  - c. Name of Engagement Partner - See paragraphs A18 of CAS 800 and A22 of CAS 805.

For illustration of a listed entity report see [Chapter 14, Illustration 2](#).

## CHAPTER 10

# Relevant Ethical Requirements

This chapter includes the following Q&As:

- 1 How are the relevant independence and other ethical requirements described in the Basis for Opinion paragraph? 284
- 2 Is it necessary to refer to all relevant independence and other ethical requirements in the Basis for Opinion paragraph when relevant ethical requirements exist in several different sources? 284
- 3 In a group audit, is it necessary to refer to the relevant independence and other ethical requirements of each component in the Basis for Opinion paragraph? 286

## Background

Paragraph 28(c) of CAS 700 indicates that the Basis for Opinion paragraph shall include a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code). The identification of the jurisdiction of origin of relevant ethical requirements increases the transparency of those requirements relating to the particular audit engagement.

### 1 How are the relevant independence and other ethical requirements described in the Basis for Opinion paragraph?

- 1.1 Paragraph CA16 of CAS 200 explains that, in Canada, relevant independence and other ethical requirements are set out in rules of professional conduct / codes of ethics applicable to the practice of public accounting issued by various professional accounting bodies (e.g., CPA Ontario, CPA Quebec etc.). Notwithstanding the provincial rules of professional conduct / codes of ethics, the Basis for Opinion paragraph may refer to the requirements in Canada.

For example, the Basis for Opinion paragraph may indicate:

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.

### 2 Is it necessary to refer to all relevant independence and other ethical requirements in the Basis for Opinion paragraph when relevant ethical requirements exist in several different sources?

- 2.1 In some situations, relevant independence and other ethical requirements may exist in several different sources. For example, in addition to the independence and ethical requirements that are relevant in Canada, the auditor may also have to comply with the IESBA Code, the relevant independence and ethical requirements of another jurisdiction, or additional rules and requirements within law and regulation.
- 2.2 The existence of several different sources of independence and other ethical requirements may cause issues, particularly in the context of a multi-jurisdictional engagement. Listing all the sources, especially when they are included in

multiple laws, regulations, or ethical codes may confuse users who might not be sufficiently familiar with the application of the ethical requirements of a foreign jurisdiction, and may not fully appreciate or understand the more complex disclosures.

- 2.3 There are many considerations when determining the appropriate amount of information to include in the auditor's report if there are multiple sources of relevant independence and other ethical requirements relating to the audit of the financial statements. Important considerations may include balancing transparency against the risk of obscuring other useful information in the auditor's report, identifying which laws, regulations or ethical codes are most stringent, and the terms of the engagement.
- 2.4 When the independence and other relevant ethical requirements are contained in a limited number of sources, the auditor may choose to name the relevant source(s). For example, if the relevant ethical requirements that apply to the audit comprise the IESBA Code together with the ethical requirements in Canada relating to the audit, then the Basis for Opinion paragraph may indicate:

We are independent of the Entity in accordance with **the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together 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.

- 2.5 If the relevant ethical requirements applicable to the audit comprise those of the U.S. Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB) together with the ethical requirements in Canada relating to the audit, then the Basis for Opinion paragraph may indicate:

We are independent of the Entity in accordance with **the ethical requirements that are relevant to our audit of the 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**, and we have fulfilled our ethical responsibilities in accordance with these requirements.

### **3 In a group audit, is it necessary to refer to the relevant independence and other ethical requirements of each component in the Basis for Opinion paragraph?**

- 3.1 Paragraph A38 of CAS 700 explains that in group audits when there are multiple sources of relevant ethical requirements, including those pertaining to independence, the reference in the auditor's report to the jurisdiction ordinarily relates to the relevant ethical requirements applicable to the group engagement team. This is because, in a group audit, component auditors are also subject to ethical requirements relevant to the group audit.

For additional reporting implications for group audits, refer to [Chapter 12, Group Audits](#).

## CHAPTER 11

# Going Concern

This chapter includes the following Q&As:

- |   |  |     |
|---|--|-----|
| 1 | What does the auditor consider when determining whether the going concern basis of accounting is relevant for a complete set of financial statements?  | 289 |
| 2 | What does the auditor consider when determining whether the going concern basis of accounting is relevant for other historical financial information (i.e., not a complete set of financial statements)?   | 292 |
| 3 | What are the reporting implications when the going concern basis of accounting is relevant?  | 293 |
| 4 | What are the reporting implications when the going concern basis of accounting is not relevant?  | 296 |
| 5 | What are the reporting implications when the going concern basis of accounting is relevant to a financial reporting framework, but the going concern assumption is not considered appropriate?   | 296 |
| 6 | What are the reporting implications when use of the going concern basis of accounting is relevant and appropriate, and a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern? | 297 |
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## Illustrative Reports

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# 1 What does the auditor consider when determining whether the going concern basis of accounting is relevant for a complete set of financial statements?

## Complete set of Financial Statements – General Purpose Financial Reporting Frameworks

- 1.1 Paragraph 2 of CAS 570 states that general purpose financial statements are prepared using the going concern basis of accounting, unless management intends either to liquidate the entity or to cease operations, or has no realistic alternative but to do so.
- 1.2 Paragraph 3 in CAS 570 indicates that some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern and of the standards regarding matters to be considered and disclosures to be made in connection with going concern.

### Explicit requirement in the financial reporting framework

- 1.3 The financial reporting frameworks included in the *CPA Canada Handbook–Accounting* require management to make a specific assessment of the entity's ability to continue as a going concern.

Financial Reporting Framework	Reference to requirement
Part I – International Financial Reporting Standards (IFRS)	See paragraph 25 of <i>International Accounting Standard (IAS) 1</i> .
Part II – Accounting Standards for Private Enterprises (ASPE)	See paragraph 7 of Section 1400, <i>General Standards of Financial Statement Presentation</i> .
Part III – Accounting Standards for Not-for-Profit Organizations	See paragraph 7 of Section 1401, <i>General Standards of Financial Statement Presentation for Not-for-Profit Organizations</i> .
Part IV – Accounting Standards for Pension Plans	See paragraph 7 of Section 4600, <i>Pension Plans</i> , which states that in selecting or changing accounting policies that do not relate to its investment portfolio or pension obligations, a pension plan shall comply on a consistent basis with either International Financial Reporting Standards in Part I of the <i>Handbook</i> , or accounting standards for private enterprises in Part II of the <i>Handbook</i> , to the extent those standards do not conflict with the requirements of this section.

**Not an explicit requirement in the financial reporting framework**

- 1.4 Paragraph 4 of CAS 570 indicates that, in some financial reporting frameworks, there may be no explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern. Nevertheless, where the going concern basis of accounting is a "fundamental principle" in the preparation of financial statements as discussed in paragraph 2 of CAS 570, the preparation of the financial statements requires management to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.
- 1.5 An example of a general purpose financial reporting framework where the going concern basis of accounting is a fundamental principle, but where there is no explicit requirement for management to make a specific assessment, is the *CPA Canada Handbook - Public Sector Accounting*. See paragraph 63 of Section PS 1000, *Financial Statement Concepts*.
- 1.6 Where the going concern basis of accounting is a "fundamental principle" in the preparation of financial statements prepared in accordance with a general purpose framework, then it is assumed the going concern basis of accounting is relevant.

**Complete set of financial statements – special purpose financial reporting frameworks**

- 1.7 Paragraph 2 of CAS 570 and paragraph A15 of CAS 800 indicate that special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant.

**Not an explicit requirement in the financial reporting framework**

- 1.8 Paragraph 4 of CAS 570 indicates that, in some financial reporting frameworks, there may be no explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern. Nevertheless, where the going concern basis of accounting is a "fundamental principle" in the preparation of financial statements as discussed in paragraph 2 of CAS 570, the preparation of the financial statements requires management to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.

- 1.9 Accordingly, when the special purpose financial reporting framework does not contain an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern, determining whether the going concern basis of accounting is a "fundamental principle" for a complete set of special purpose financial statements is a matter of professional judgment.
- 1.10 The underlying financial reporting framework, if any, is the primary factor in determining whether the going concern basis of accounting is a "fundamental principle" in the preparation of financial statements. The going concern basis of accounting is more likely a fundamental principle when a special purpose financial reporting framework is based on a general purpose financial reporting framework. For example, the special purpose financial reporting framework may be described as "in accordance with the recognition and measurement principles of IFRS." Since the recognition and measurement principles of IFRS are based on the fact that the going concern basis of accounting is relevant, then the going concern basis of accounting is more likely to be relevant to this special purpose financial reporting framework.
- 1.11 When the reporting entity for the complete set of financial statements is not a legal entity (e.g., a store, joint venture, property, project, etc.), the practitioner will need to use judgment to determine which entity the assessment of going concern is being done on, if relevant.

#### **Explicit requirement in the financial reporting framework**

- 1.12 When the special purpose financial reporting framework is explicit that the financial statements are prepared using the going concern basis of accounting, the going concern basis of accounting is relevant.

#### **Whether or not the going concern basis of accounting is relevant**

- 1.13 Refer to [Q&A 3](#) when the going concern basis of accounting is relevant to the applicable financial reporting framework.
- 1.14 Refer to [Q&A 4](#) when the going concern basis of accounting is NOT relevant to the applicable financial reporting framework.

## 2 What does the auditor consider when determining whether the going concern basis of accounting is relevant for other historical financial information (i.e., not a complete set of financial statements)

- 2.1 Other historical financial information may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant.

### Explicit requirement in the financial reporting framework

- 2.2 When the financial reporting framework is explicit that the other historical financial information is prepared using the going concern basis of accounting, the going concern basis of accounting is relevant. This is generally the case for general purpose financial reporting frameworks (see Q&A 1 paragraphs [1.1](#) to [1.3](#)).

### Not an explicit requirement in the financial reporting framework

- 2.3 When the financial reporting framework is not explicit that the other historical financial information is prepared using the going concern basis of accounting, determining whether the going concern basis of accounting is a “fundamental principle” is a matter of professional judgment. Where the going concern basis of accounting is a “fundamental principle” in the preparation of other historical financial information, the going concern basis of accounting is relevant.
- 2.4 Factors the auditor may consider in determining whether the going concern basis of accounting is a “fundamental principle” in the preparation of other historical financial information may include:
- recognition and measurement principles: When the use of the going concern basis of accounting is relevant and appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business. If whether or not the going concern basis of accounting is relevant would not affect the recognition and measurement of the information being reported on then, it is less likely to be a fundamental principle.

For example, if the auditor is reporting on a schedule of expenses prepared in accordance with the cash basis of accounting then the going concern basis is less likely a fundamental principle. In this scenario the auditor is reporting on expenses that have already occurred and been paid and thus the going concern assumption would not affect the recognition and measurement of the information reported. If the information reported on included transactions that have not been paid at the date of the report, then use of judgment is needed to determine whether the going concern

basis of accounting is a fundamental principle. In exercising that judgment the auditor may want to consider the materiality of the amounts and the relevance to the user of the report.

- type/nature of the reporting entity together with the nature of what is being audited:

The facts and circumstances of the type/nature of the reporting entity together with the nature of what is being audited would be relevant to understanding whether the going concern basis of accounting is a fundamental principle. For special purpose financial statements that are not a complete set, the going concern basis of accounting is less likely a fundamental principle when reporting on expenses of a reporting entity that is an activity, a branch, a program, a property or a project. However, reporting on the balance sheet only of a branch, division or a property, may require the auditor to consider the going concern assumption as relevant.

For example, if the auditor is reporting on an Acquisition Statement for an Oil and Gas Property prepared in accordance with National Instrument 52-107 then the going concern basis would not be a fundamental principle since the business of the seller would not be fundamental to understanding the property that has been sold to another party, and thus the going concern assumption is not relevant. See [chapter 5, Illustration 3](#).

### Whether or not the going concern basis of accounting is relevant

- 2.5 Refer to [Q&A 3](#) when the going concern basis of accounting is relevant to the applicable financial reporting framework.
- 2.6 Refer to [Q&A 4](#) when the going concern basis of accounting is NOT relevant to the applicable financial reporting framework.

## 3 What are the reporting implications when the going concern basis of accounting is relevant?

- 3.1 Where the going concern basis of accounting is a fundamental principle in the applicable financial reporting framework, the going concern basis of accounting is relevant.
- 3.2 When the going concern basis of accounting is relevant, CAS 570 is applicable and therefore the requirements in paragraph 34(b) and 39(b)(iv) in CAS 700 to describe in the auditor's report the respective responsibilities of management and the auditor relating to going concern apply.

### Management's responsibilities for the financial statements

- 3.3 Paragraph 34(b) in CAS 700 requires the section with the heading “Responsibilities of Management for the Financial Statements” (as required by paragraph 33 in CAS 700), to contain a description of management’s responsibilities, including for:
- a. assessing the entity’s ability to continue as a going concernThe explanation of management’s responsibility for the assessment includes a description of “when” the use of the going concern basis of accounting is appropriate. This description of “when” is intended to be tailored to the requirements of the applicable financial reporting frame- work relating to going concern.
  - b. determining whether the use of the going concern basis of accounting is appropriateThis description relates to “whether” the use of the going concern basis of accounting is appropriate, which is different from “when” the use of the going concern basis of accounting is appropriate, as discussed in (a) above.
  - c. disclosing, if applicable, matters relating to going concern.
- 3.4 When the financial statements are prepared in accordance with one of the general purpose financial reporting framework in the *CPA Canada Handbook – Accounting* or when the going concern basis of accounting is a fundamental principle in the preparation of financial statements (i.e., the going concern basis of accounting is relevant but not explicit), such as the *CPA Canada Handbook – Public Sector Accounting*, the description of management’s responsibility with respect to going concern may be shown as presented in [Illustration 1](#).
- 3.5 When the financial statements are prepared in accordance with a special purpose financial reporting framework, paragraph A15 of CAS 800 states that, depending on the applicable financial reporting framework used in preparation of the special purpose financial statements, the description in the auditor’s report of management’s responsibilities relating to going concern may need to be adapted as necessary.
- 3.6 When the single financial statement or the specific elements, accounts or items of a financial statement are prepared in accordance with a special purpose financial reporting framework, paragraph A19 of CAS 805 states that, depending on the applicable financial reporting framework used in preparation of the single financial statement or the specific element of a financial statement, the description in the auditor’s report of management’s responsibilities relating to going concern may need to be adapted as necessary.

### Auditor's responsibilities for the audit of the financial statements

- 3.7 Paragraph 39(b)(iv) of CAS 700 requires the section with a heading “Auditor’s Responsibilities for the Audit of the Financial Statements” (as required by paragraph 37 in CAS 700) to describe the auditor’s responsibilities, including for:
- a. concluding on the appropriateness of management’s use of the going concern basis of accounting
  - b. concluding, 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.
- 3.8 When the financial statements are prepared in accordance with one of the general purpose financial reporting frameworks in the *CPA Canada Handbook – Accounting* or when the *going concern basis of accounting* is a fundamental principle in the preparation of financial statements (i.e., going concern basis of accounting is relevant but not explicit), such as in the *CPA Canada Handbook – Public Sector Accounting*, the description of the auditor’s responsibility with respect to going concern may be shown as presented in [Illustration 1](#).
- 3.9 When the financial statements are prepared in accordance with a special purpose financial reporting framework, paragraph A15 of CAS 800 states that the description in the auditor’s report of the auditor’s responsibilities may also need to be adapted as necessary, depending on how CAS 570 applies in the circumstances of the engagement.
- 3.10 When the single financial statement or specific elements, accounts or items of a financial statement are prepared in accordance with a special purpose financial reporting framework, paragraph A19 of CAS 805 states that, the description in the auditor’s report of the auditor’s responsibilities relating to going concern may need to be adapted as necessary, depending on how CAS 570 applies in the circumstances of the engagement.
- 3.11 If the auditor concludes that a material uncertainty exists, the auditor is required to:
- draw attention in the auditor’s report to the related disclosures in the financial statements
  - modify the opinion if related disclosures in the financial statements are inadequate.

The auditor’s conclusions are based on the audit evidence obtained up to the date of the auditor’s report. However, future events or conditions may cause the reporting entity to cease to continue as a going concern. See [Q&A 5](#) for more details.

## 4 What are the reporting implications when the going concern basis of accounting is not relevant?

- 4.1 If the going concern basis of accounting is not a fundamental principle in the applicable financial reporting framework, then the going concern basis of accounting is not relevant.
- 4.2 When the going concern basis of accounting is not relevant, CAS 570 is not applicable and therefore the reporting requirements in paragraphs [3.3](#) and [3.7](#) of Q&A 3 to describe in the auditor's report the respective responsibilities of management and the auditor relating to going concern do not apply.

### Special purpose financial reporting framework

- 4.3 When the going concern basis of accounting is not relevant in a special purpose financial reporting framework the auditor may deem it appropriate to refer, in an Other Matter paragraph to the auditor's report, if one exists, on the complete set of general purpose financial statements or to matter(s) reported therein.
- 4.4 See [Illustrations 1, 2 and 3 of chapter 5](#) for examples of historical financial information other than financial statements where the going concern basis of accounting is not relevant.

## 5 What are the reporting implications when the going concern basis of accounting is relevant to a financial reporting framework, but the going concern assumption is not considered appropriate?

- 5.1 When the going concern basis of accounting is relevant to a financial reporting framework (either because it is explicit in the financial reporting framework or is fundamental principle, see [Q&A 1](#) in this chapter), but management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so, the going concern basis of accounting is not considered appropriate.
- 5.2 When the use of the going concern basis of accounting is not considered appropriate in the circumstances, paragraph A27 of CAS 570 states that management may be required, or may elect, to prepare the financial statements not using the going concern basis of accounting but prepare them on another basis (e.g., liquidation basis).
- 5.3 When the going concern basis of accounting is relevant to a financial reporting framework and the financial statements or other historical information have been prepared using the going concern basis of accounting but, in the auditor's



judgment, management's use of the going concern basis of accounting in the preparation of the financial statements or other historical information is not considered appropriate, the report includes:

- a. an adverse opinion, positioned as the first section of the report
  - b. a description of this circumstance in the *Basis for Adverse Opinion* section
  - c. CAS 701, *Communicating Key Audit Matters in the Independent Auditor's Report* applies see [Q&A 9](#).
- 5.4 The auditor may be able to perform an audit of financial statements or other historical information prepared in accordance with another basis of accounting (e.g., liquidation basis) provided the auditor determines that the other basis of accounting is acceptable in the circumstances. See [chapter 1, section B Q&A 3](#).
- 5.5 The auditor may be able to express an unmodified opinion on financial statements or other historical information prepared in accordance with another basis of accounting (e.g., liquidation basis) provided there is adequate disclosure therein about the basis of accounting. The auditor may also consider it necessary to include an Emphasis of Matter paragraph in accordance with paragraph 8 of CAS 706 in the auditor's report to draw the user's attention to that other basis of accounting (e.g., liquidation basis) and the reasons for its use. See [chapter 3, Q&A 1](#) for further details on the use of an Emphasis of Matter paragraph.
- 5.6 The descriptions in the auditor's report of management's responsibilities and the auditor's responsibilities relating to going concern may need to be adapted as necessary. See [Q&A 3](#) in this chapter.

## 6 What are the reporting implications when use of the going concern basis of accounting is relevant and appropriate, and a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern?

- 6.1 Paragraph 22 of CAS 570 states that if the auditor determines, as required by paragraph 19 of CAS 570, that the disclosures about the material uncertainty in the financial statements or other historical information are **adequate** the report includes (see [Illustration 1](#)):
- a. an unmodified opinion
  - b. a section with the heading *Material Uncertainty Related to Going Concern* (unless law or regulation prescribe a different heading):
    - i. reference to the note in the financial statements or other historical information that describes the material uncertainty

- ii. a statement that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion has not been modified in respect of the matter.
- 6.2 Paragraph 23 of CAS 570 states that, if the auditor determines, as required by paragraph 19 of CAS 570, that the disclosures of the material uncertainty in the financial statements or other historical information are inadequate or omitted, the report includes (see [Illustration 2](#) and [Illustration 3](#)):
- a. a qualified opinion if the omission is determined not to be pervasive to the financial statements or other historical information or an adverse opinion if omission is determined to be pervasive to the financial statements or other historical information.
  - b. a statement in the *Basis for Qualified/Adverse Opinion* section of the report that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter/fact.
- 6.3 When CAS 701, *Communicating Key Audit Matters in the Independent Auditor's Report* applies, see [Q&A 9](#).

## 7 What are the reporting implications when a material uncertainty exists and a comparative financial statement reporting approach is used?

- 7.1 Paragraph 15 of CAS 710 states that, if the auditor uses a comparative financial statement reporting approach, the auditor's opinion is required to refer to each period for which the financial statements are presented and on which an audit opinion is expressed.
- 7.2 When a material uncertainty relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern:

Circumstance	Auditor response
arose in the current period:	The auditor includes in the auditor's report on the current period financial statements or other historical information a <i>Material Uncertainty Related to Going Concern</i> section as discussed in <a href="#">Q&amp;A 6</a> .
existed in the prior period and continues to exist in the current period:	The auditor includes in the auditor's report on the current period financial statements or other historical information a <i>Material Uncertainty Related to Going Concern</i> section as discussed in <a href="#">Q&amp;A 6</a> .

Circumstance	Auditor response
existed in the prior period but no longer exists in the current period:	The auditor does <i>not</i> include in the audit report on the current period financial statements or other historical information the <i>Material Uncertainty Related to Going Concern</i> section that was included in the report of the prior period.

## 8 What are the reporting implications when events or conditions were identified that may cast significant doubt on the entity's ability to continue as a going concern, but the auditor concludes that no material uncertainty exists (e.g., close call)?

- 8.1 Paragraph 20 of CAS 570 states that, if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements or other historical information provide adequate disclosure of these events or conditions. Some financial reporting frameworks may not explicitly state the required disclosures associated with events, or conditions were identified that may cast significant doubt on the entity's ability to continue as a going concern. Such disclosures may be required based on other requirements within the applicable financial reporting framework.<sup>18</sup>
- 8.2 If the disclosures are adequate in view of the requirements of the applicable financial reporting framework, then issue an unmodified opinion. If disclosures are not adequate in view of the requirements of the applicable financial reporting framework, then see [chapter 4, section B](#) for modified opinions.
- 8.3 If the auditor considers the disclosures of these events or conditions to be fundamental to the user's understanding of the financial statements or other historical financial information, the auditor may consider including an Emphasis of Matter paragraph to refer to such disclosures.
- 8.4 When CAS 701, *Communicating Key Audit Matters in the Independent Auditor's Report* applies, see [Q&A 9](#).

<sup>18</sup> For example, the IFRS Interpretations Committee observed, in its July 2014 IFRIC Agenda Decision, that the disclosure requirements of paragraph 122 of IAS 1 would apply to the judgments made in concluding that there remain no material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

## 9 What are the reporting implications related to going concern when CAS 701, *Key Audit Matters*, applies?

- 9.1 Paragraph 15 of CAS 701 states that a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is, by its nature, a Key Audit Matter (KAM). It further indicates that that this material uncertainty shall not be described in the *Key Audit Matters* section of the report but rather include a reference to the *Material Uncertainty Related to Going Concern* section in the *Key Audit Matters* section as follows:

In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

[Description of each KAM]

- 9.2 When the auditor concludes that no material uncertainty exists relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, paragraph A41 of CAS 701 states that the auditor may determine that one or more matters relating to this going concern conclusion arising from the auditor's work effort are KAM. In such circumstances, the auditor's description of such key audit matters in the auditor's report could include aspects of the identified events or conditions disclosed in the financial statements, such as substantial operating losses, available borrowing facilities and possible debt refinancing, or non-compliance with loan agreements, and related mitigating factors. Paragraph A2 of CAS 706 states that matters determined to be key audit matters may also be, in the auditor's judgment, fundamental to users' understanding of the financial statements. In such cases, when communicating the matter as a KAM, the auditor may wish to highlight or draw further attention to its relative importance. The auditor may do so by presenting the matter more prominently than other matters in the Key Audit Matters section (e.g., as the first matter) or by including additional information in the description of the KAM to indicate the importance of the matter to users' understanding of the financial statements.

## Introduction to illustrative reports

For the purposes of the illustrative reports in this chapter, the following circumstances are assumed, unless indicated otherwise:

Topic and circumstance	Reference to guidance
<b>Subject Matter</b>	
<ul style="list-style-type: none"> <li>The auditor reports on a complete set of financial statements.</li> </ul>	Chapter 5, Section A, Q&A 2
<b>Comparative Information</b>	
<ul style="list-style-type: none"> <li>The auditor is reporting under the corresponding figures approach (i.e., the auditor's opinion on the financial statements refer to the current period only)</li> </ul>	Chapter 4, Q&A 1
<b>Financial Reporting Framework</b>	
<ul style="list-style-type: none"> <li>The applicable financial reporting framework is a fair presentation financial reporting framework.</li> </ul>	Chapter 1, Section D, Q&A 1
<ul style="list-style-type: none"> <li>The auditor has determined that the general purpose financial reporting framework is acceptable.</li> </ul>	Chapter 1, Section B, Q&A 2
<b>Ethical Requirements</b>	
<ul style="list-style-type: none"> <li>The auditor has decided to only make reference to relevant ethical requirements in Canada that apply to the audit.</li> </ul>	Chapter 10
<b>Key Audit Matters</b>	
<ul style="list-style-type: none"> <li>The auditor is not required, and has otherwise not decided, to communicate key audit matters, in accordance with CAS 701.</li> </ul>	
<b>Other Information</b>	
<ul style="list-style-type: none"> <li>The auditor has determined that there is no other information (i.e., the requirements of CAS 720 do not apply)</li> </ul>	Chapter 14
<b>Responsibility of Management and Those Charged with Governance</b>	
<ul style="list-style-type: none"> <li>The terms of the audit engagement do not include any additional management responsibilities in addition to those in paragraph 6(b) of CAS 210.</li> </ul>	
<ul style="list-style-type: none"> <li>Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.</li> </ul>	Chapter 2, Q&A 3
<b>Auditor's Responsibilities</b>	
<ul style="list-style-type: none"> <li>The description of the auditor's responsibilities are included within the body of the auditor's report (refer to paragraph 41 of CAS 700).</li> </ul>	

Topic and circumstance	Reference to guidance
<b>Other Reporting Responsibilities</b>	
<ul style="list-style-type: none"><li>• The auditor has no other reporting responsibilities required under law or regulation.</li></ul>	

### **Illustration 1: Listed Entity with an unmodified opinion when the auditor has concluded that a material uncertainty exists and disclosure in the financial statements is adequate**

Please read the Introduction to the illustrative reports. For purposes of this illustrative report, the following additional circumstances are assumed:

#### **Entity:**

- The entity under audit is a listed entity.
- The audit is a group audit engagement
  - Refer to [chapter 12](#).
- Management 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.

#### **Financial reporting framework:**

- The financial reporting framework is International Financial Reporting Standards.
  - Refer to [chapter 1, section A](#).
- The going concern basis of accounting is relevant.
  - Refer to [Q&A 1](#).

#### **Comparative information:**

- The auditor is reporting under the comparative financial statements reporting approach.

#### **Reporting implications:**

- The auditor has concluded that disclosure of the material uncertainty in the financial statements is adequate.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

*Opinion*

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1 and December 31, 20X0, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of 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 Group as at December 31, 20X1 and December 31, 20X0, and its consolidated financial performance and its consolidated cash flows for the years 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 Group in accordance with the ethical requirements that are relevant to our audit of the consolidated 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 Group incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Group's current liabilities exceeded its total assets by YYY. 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 Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

**In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.**

Those charged with governance are responsible for overseeing the Group'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 consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.**
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 consolidated 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.

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

[Auditor's signature]

[Auditor's address]

[Date]

## **Illustration 2: Other than listed entity with qualified opinion when the auditor has concluded that a material uncertainty exists and that the financial statements are materially misstated due to inadequate disclosure**

Please read the Introduction to the illustrative reports. For purposes of this illustrative report, the following additional circumstances are assumed:

### **Entity:**

- The entity under audit is an entity other than a listed entity.
- The audit is not a group audit engagement (i.e., the requirements of CAS 600 do not apply).
- Management 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.

### **Financial reporting framework:**

- The financial reporting framework is Canadian accounting standards for private enterprises.
  - Refer to [chapter 1, section A](#).
- The going concern basis of accounting is relevant.
  - Refer to [Q&A 1](#).

### **Financial Statements:**

- Note X to the financial statements discusses the magnitude of financing arrangements, the expiration and the total financing arrangements; however, the financial statements do not include discussion on the impact or the availability of refinancing or characterize this situation as a material uncertainty. The financial statements are materially misstated due to the inadequate disclosure of the material uncertainty.

### **Reporting implications:**

- The auditor has concurred with management's conclusion 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.
- A qualified opinion is being expressed because the auditor concluded that the effects on the financial statements of this inadequate disclosure are material but not pervasive to the financial statements.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

*Qualified Opinion*

We have audited the financial statements of ABC Company (the Entity), which comprise the balance sheet as at December 31, 20X1, and the statements of income, retained earnings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the incomplete disclosure of the information referred to in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 20X1, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

*Basis for Qualified Opinion*

As discussed in Note X, the Entity's financing arrangements expire and amounts outstanding are payable on March 19, 20X2. The Entity has been unable to conclude renegotiations or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern. The financial statements do not adequately disclose this matter.

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 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 qualified opinion.

*Responsibilities of Management and Those Charged with Governance for the Financial Statements*  
Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, 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.

**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.**

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

*Auditor's Responsibilities for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]

### **Illustration 3: Other than listed entity with an adverse opinion when the auditor has concluded that a material uncertainty exists and the financial statements omit the required disclosures relating to a material uncertainty**

Please read the Introduction to the illustrative reports. For purposes of this illustrative report, the following additional circumstances are assumed:

#### **Entity:**

- The entity under audit is an entity other than a listed entity.
- The audit is not a group audit engagement (i.e., the requirements of CAS 600 do not apply).
- Management 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, and the Company is considering bankruptcy.

#### **Financial reporting framework:**

- The financial reporting framework is Canadian accounting standards for private enterprises.
  - Refer to [chapter 1, section A](#).
- The going concern basis of accounting is relevant.
  - Refer to [Q&A 1](#).

#### **Financial Statements:**

- The financial statements omit the required disclosures relating to the material uncertainty.

#### **Reporting implications:**

- An adverse opinion is being expressed because the effects on the financial statements of such omission are material and pervasive.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

*Adverse Opinion*

We have audited the financial statements of ABC Company (the Entity), which comprise the balance sheet as at December 31, 20X1, and the statements of income, retained earnings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the omission of the information mentioned in the *Basis for Adverse Opinion* section of our report, the accompanying financial statements do not present fairly, the financial position of the Entity as at December 31, 20X1, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

*Basis for Adverse Opinion*

The Entity's financing arrangements expired and the amount outstanding was payable on December 31, 20X1. The Entity has been unable to conclude renegotiations or obtain replacement financing and is considering filing for bankruptcy. This situation indicates that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern. The financial statements do not adequately disclose this fact.

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 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 adverse opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, 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.

**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.**

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

*Auditor's Responsibilities for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]

## CHAPTER 12

# Group Audits

This chapter includes the following Q&As:

- |   |   |     |
|---|---|-----|
| 1 | Can the component auditor(s) be referred to in the auditor's report on the group financial statements?  | 313 |
| 2 | How do you describe the group in the auditor's report?  | 313 |
| 3 | How do you describe the auditor's responsibilities related to a group audit in the auditor's report?  | 314 |
| 4 | If the auditor is both the group auditor and the component auditor for all components in the group, is the group auditor responsibility paragraph included? | 315 |
| 5 | Which independence and other ethical requirements are relevant in a group audit?  | 315 |



## 1 Can the component auditor(s) be referred to in the auditor's report on the group financial statements?

- 1.1 Paragraph 11 of CAS 600 indicates that the auditor's report on the group financial statements shall not refer to the component auditor, unless required by law or regulation to include such reference. If such reference is required by law or regulation, the auditor's report shall indicate that the reference does not diminish the group engagement partner's or the group engagement partner's firm's responsibility for the group audit opinion.
- 1.2 Paragraph A9 of CAS 600 further explains that when the group audit opinion is modified because the group engagement team was unable to obtain sufficient appropriate audit evidence in relation to the financial information of one or more components, the Basis for Modification paragraph in the auditor's report on the group financial statements describes the reasons for that inability without referring to the component auditor, unless such a reference is necessary for an adequate explanation of the circumstances.

## 2 How do you describe the group in the auditor's report?

- 2.1 Paragraph 9(j) of CAS 600 defines "group financial statements" as financial statements that include financial information of more than one component. The term "group financial statements" also refers to combined financial statements aggregating the financial information prepared by components that have no parent but are under common control.
- 2.2 Paragraph 9(a) of CAS 600 defines a "component" as an entity or business activity for which group or component management prepares financial information that should be included in the group financial statements.
- 2.3 The structure of the group affects how components are identified. Components are not limited to just subsidiaries consolidated in accordance with a financial reporting framework, but they may also include any business activity for which component management prepares financial information that should be included in the group financial statements.
- 2.4 Some examples of possible components that may be found in a group audit:
  - a. Subsidiaries;
  - b. Entities under common control;
  - c. Joint ventures;
  - d. Head office and one or more divisions or branches;

- e. Functions, processes, products or services, or geographic locations;
- f. Equity method investees.

There are various ways to describe the reporting entity in the auditor's report on group financial statements. For example, "the Consolidated Entity", "the Combined Entity", "the Group Entity", "the Group", and "the Group (and its subsidiaries)".

- 2.5 For the purposes of this Guide, the reporting entity in a group audit will be referred to as "the Group".

### 3 How do you describe the auditor's responsibilities related to a group audit in the auditor's report?

- 3.1 When CAS 600 applies, paragraph 39(c) of CAS 700 requires the auditor's report to describe the additional auditor's responsibilities in a group audit engagement by stating that:
- a. The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the group financial statements;
  - b. The auditor is responsible for the direction, supervision and performance of the group audit; and
  - c. The auditor remains solely responsible for the auditor's opinion.
- 3.2 The following is an example of what would be added to the *Auditor's Responsibilities for the Audit of the Financial Statements*:

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.

- 3.3 See Illustration 2 of the Appendix to CAS 700.

**4 If the auditor is both the group auditor and the component auditor for all components in the group, is the group auditor responsibility paragraph included?**

- 4.1 Yes. Even when the auditor is the auditor of all components, the auditor is required to apply CAS 600 and accordingly you would include the group auditor responsibility paragraph. See Q&A 3.

**5 Which independence and other ethical requirements are relevant in a group audit?**

- 5.1 See [Chapter 10, Relevant Ethical Requirements - Q&A 3](#).

## CHAPTER 13

# Key Audit Matters (KAM)

This chapter includes the following Q&As:

1	How are key audit matters (KAM) communicated in the auditor's report?	317
2	How is each individual KAM described in the auditor's report?	318
3	What are the reporting implications on KAM when the auditor reports a material uncertainty related to going concern?	321
4	What are the reporting implications on KAM when the auditor expresses a qualified or adverse opinion?	322
5	What are the reporting implications on KAM when the auditor disclaims an opinion?	323
6	When CAS 701 applies, what are the reporting implications on Emphasis of Matter / Other Matter paragraphs?	324
7	What are the reporting implications when the auditor determines that there are no KAM to communicate?	325
	<b>Appendix 1</b>	<b>326</b>

## 1 How are key audit matters (KAM) communicated in the auditor's report?

- 1.1 Paragraph 11 of CAS 701 requires the auditor to have a separate section in the auditor's report entitled "Key Audit Matters" (unless the circumstances in CAS 701.15 apply. See [Q&A 4](#) and [5](#) or circumstances in CAS 701.14 apply). The following items are considered in drafting this separate section:

KAM structure	Guidance
Introductory Language <b>[CAS 701, paragraph 11]</b>	Example wording that satisfies the requirements is:  <i>Key Audit Matters</i>  Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. <sup>19</sup> These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.
Subheading for Individual KAM <b>[CAS 701, paragraph 11]</b>	Each individual KAM is to have an appropriate subheading.
Location of KAM <b>[CAS 701, paragraph A31]</b>	Paragraph A31 suggests placing KAM in close proximity to the auditor's opinion because it may give prominence to KAM and acknowledge the value of engagement specific information to intended users.  The "Sample Auditor's Report" found in the Foreword section of this Guide provides example ordering of the elements of the auditor's report and the location of the "Key Audit Matters" section is found after any "Material Uncertainty Related to Going Concern" section and "Emphasis of Matter" section.
Ordering of KAM <b>[CAS 701, paragraph A32]</b>	The order of the individual KAM is a matter of professional judgment. For example, the auditor may organize the KAM in order of relative prominence (based on the auditor's professional judgment of that importance), or in which matters are disclosed in the financial statements, if applicable.

<sup>19</sup> Paragraph A33 of CAS 701 states that when comparative financial information is presented, the introductory language of the Key Audit Matters section is tailored to draw attention to the fact that the KAM described relate to only the audit of the financial statements of the current period, and may include reference to the specific period covered by these financial statements (e.g., "for the year ended December 31, 20X1").

## 2 How is each individual KAM described in the auditor's report?

Communicating KAM provides additional information to intended users of the financial statements to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. KAM are to be tailored to the current period audit performed. As such, no illustrative KAM have been provided in this *Guide*. [Appendix 1](#) to this chapter summarizes a possible writing style the auditor may find helpful when developing a description for each individual KAM.

- 2.1 Paragraph 13 of CAS 701 requires the description of each KAM in the "Key Audit Matters" section of the auditor's report to include the following:
  - Reference to the related disclosure(s), if any, in the financial statements;
  - Why the matter was considered to be one of most significance in the audit (and therefore determined to be a KAM); and
  - How the matter was addressed in the audit.
- 2.2 As explained in paragraph A34 of CAS 701, the description of a KAM is a matter of professional judgment. When describing a KAM, it is intended to provide a succinct and balanced explanation to enable intended users to understand why the matter was considered to be one of most significance in the audit and how the matter was addressed in the audit. The nature and extent of information provided by the auditor is intended to provide useful information in a concise and understandable form while not inappropriately providing original information about the entity.
- 2.3 Paragraph A35 describes original information as being any information about the entity that has not otherwise been made publicly available by the entity. If certain information has not been included in the financial statements, press releases, management discussion and analysis or investor briefings for example, this may constitute original information.
- 2.4 As explained in paragraph A36 of CAS 701, it is appropriate for the auditor to seek to avoid the description of a KAM inappropriately providing original information about the entity. The description of a KAM does not usually contain original information about the entity, as it describes the matter in the context of the audit. However, the auditor may consider it necessary to include additional information to explain why the matter was considered to be one of most significance in the audit and therefore determined to be a KAM, and how the matter was addressed in the audit. When such information is determined to

be necessary by the auditor, the auditor may encourage management or those charged with governance to disclose additional information, rather than the auditor providing original information in the auditor's report.

- 2.5 Paragraph A37 indicates that management or those charged with governance may decide to include new or enhanced disclosures in the financial statements or elsewhere in the annual report, related to a KAM, considering the fact the matter will be communicated in the auditor's report. Such new or enhanced disclosures, for example, may be included to provide more robust information about the sensitivity of key assumptions used in accounting estimates or the entity's rationale for a particular accounting practice or policy when acceptable alternatives exist under the applicable financial reporting framework.

#### **Reference to the related disclosure(s), if any, in the financial statements**

- 2.6 CAS 701 paragraph A40 explains that the description of each KAM is not a mere reiteration of what is disclosed in the financial statements. However, reference to any related disclosures enables the intended users to further understand how management has addressed the matter in preparing the financial statements.
- 2.7 In accordance with paragraph A41 of CAS 701, the auditor may not only refer to the related disclosure(s) but may also draw attention to key aspects of them to help the intended user understand why the matter is a KAM. For example, when an entity includes robust disclosure about accounting estimates, the auditor may draw attention to the disclosure of key assumptions, the disclosure of the range of possible outcomes, and other qualitative and quantitative disclosures relating to key sources of estimation uncertainty or critical accounting estimates, as part of addressing why the matter was one of most significance in the audit and how the matter was addressed in the audit.

#### **Why the matter was considered to be one of the most significance in the audit**

- 2.8 CAS 701 paragraph A42 explains that the description of a KAM is intended to provide insight as to why the auditor considered the matter to be one of most significance in the audit. For example, explaining the factors that led the auditor to conclude that a particular matter required significant auditor attention and was of most significance in the audit is likely to be of interest to intended users, such as circumstances that affected the underlying judgments made in the financial statements of the current period.

### How the matter was addressed in the audit

- 2.9 In accordance with paragraph A46 of CAS 701, in drafting how the matter was addressed in the audit, the auditor may describe one, or some combination, of the following elements:

Element	Guidance
Aspects of the auditor's response or approach that were the most relevant to the matter <b>[CAS 701, paragraph A48]</b>	When the auditor's response or approach required significant tailoring to the facts and circumstances of the engagement, describing the aspects of the auditor's response or approach may assist intended users in understanding the unusual circumstances and the significant auditor judgments required to address the risk of material misstatement.
Brief overview of procedures performed <b>[CAS 701, paragraph A50]</b>	It may be difficult to summarize the procedures performed in a succinct way that adequately communicates the nature and extent of the auditor's response to the assessed risk of material misstatement, and the significant auditor judgments involved. The auditor may consider it necessary to describe certain procedures performed to communicate how the matter was addressed in the audit. Such description may typically be at a high level, rather than include a detailed description of procedures.
<ul style="list-style-type: none"> <li>An indication of the outcome of the auditor's procedures; and</li> <li>Key observations with respect to this matter</li> </ul> <b>[CAS 701, paragraph A47 and A51]</b>	Care may be necessary so that language used: <ul style="list-style-type: none"> <li>Does NOT imply that the matter has not been appropriately resolved by the auditor in forming the opinion on the financial statements.</li> <li>Does NOT contain or imply a discrete opinion on separate elements of the financial statements.</li> <li>Does NOT call into question the auditor's opinion on the financial statements as a whole.</li> </ul>



### 3 What are the reporting implications on KAM when the auditor reports a material uncertainty related to going concern?

- 3.1 In accordance with paragraph 15 of CAS 701, a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with CAS 570, is by its very nature a KAM. However, this material uncertainty is not to be described in the "Key Audit Matters" section of the auditor's report because it is dealt with specifically and separately.
- 3.2 Paragraph 15 of CAS 701 requires the auditor to:
- Report on the material uncertainty related to a going concern in accordance with CAS 570. Refer to [Chapter 11 Q&A 9](#); and
  - Include a reference to the "Material Uncertainty Related to Going Concern" section in the "Key Audit Matters" section.
- 3.3 When the only KAM communicated relates to a material uncertainty related to going concern, paragraph 16 of CAS 701 requires that a statement to this effect be included in the "Key Audit Matters" section. An example of the reference to the "Material Uncertainty Related to Going Concern" section in the "Key Audit Matters" section is as follows:

Circumstance	Key Audit Matters Section
Material Uncertainty with <b>other</b> KAM reported <b>[CAS 701, paragraph A6]</b>	Key audit matters are those matters, that in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.  <b>In addition to the matter described in the <i>Material Uncertainty Related to Going Concern</i> section, we have determined the matters described below to be the key audit matters to be communicated in our auditor's report.</b>  [Description of each individual KAM – Refer to <a href="#">Q&amp;A 2</a> ]

Circumstance	Key Audit Matters Section
Material Uncertainty with <b>no other</b> KAM reported <b>[CAS 701, paragraph A58]</b>	Key audit matters are those matters, that in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.  <b>Except for the matter described in the <i>Material Uncertainty Related to Going Concern</i> section, we have determined that there are no other key audit matters to communicate in our auditor’s report.</b>

#### 4 What are the reporting implications on KAM when the auditor expresses a qualified or adverse opinion?

- 4.1 In accordance with paragraph 15 of CAS 701, a matter that gives rise to a qualified / adverse opinion in accordance with CAS 705, is by its very nature a KAM. However, the matter is not to be described in the “Key Audit Matters” section of the auditor’s report.
- 4.2 In accordance with paragraph 15 of CAS 701, the auditor is required to:
  - a. Report in accordance with CAS 705. (Refer to [Chapter 4, Section B, Modified Opinions](#)); and
  - b. Include a reference to the “Basis for Qualified Opinion / Basis for Adverse Opinion” section in the “Key Audit Matters” section.
- 4.3 Furthermore, when the only KAM communicated relates to a matter that gives rise to a qualified / adverse opinion, paragraph 16 of CAS 701 requires that a statement to this effect be included in the “Key Audit Matters” section.

- 4.4 Examples of the reference to the “Basis for Qualified Opinion” section in the “Key Audit Matters” section are as follows:

Circumstance	Key Audit Matters Section
Modified opinion with <b>other</b> KAM reporting <b>[CAS 701, paragraph A6]</b>	Key audit matters are those matters, that in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.  <b>In addition to the matter described in the <i>Basis for Qualified Opinion</i> section, we have determined the matters described below to be the key audit matters to be communicated in our auditor’s report.</b>  [Description of each individual KAM: Refer to <a href="#">Q&amp;A 2</a> ]
Modified opinion with <b>no other</b> KAM reported <b>[CAS 705, Illustration 2 and CAS 701, paragraph A58]</b>	Key audit matters are those matters, that in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.  <b>Except for the matter described in the <i>Basis for Qualified Opinion</i> section, we have determined that there are no other key audit matters to communicate in our auditor’s report.</b>

- 4.5 Similar changes are made when referring to the “Basis for Adverse Opinion” section.

## 5 What are the reporting implications on KAM when the auditor disclaims an opinion?

- 5.1 Paragraph 29 of CAS 705 prohibits the auditor from communicating KAM when the auditor disclaims an opinion on the financial statements, unless such reporting is required by law or regulation. The auditor is prohibited from doing

so due to concerns that communicating KAM would suggest the auditor was able to conclude on the topic that led to the disclaimer of opinion or other aspects of the audit, both of which could lead to inappropriate reliance on the financial statements given the disclaimer of opinion.

## 6 When CAS 701 applies, what are the reporting implications on Emphasis of Matter / Other Matter paragraphs?

- 6.1 It is to be noted that when CAS 701 applies, Emphasis of Matter paragraphs are still used, and the definitions have not changed. When CAS 701 applies, the use of Emphasis of Matter paragraphs is not a substitute for the description of individual KAM.
- 6.2 The auditor may identify a matter that is fundamental to the users' understanding of the financial statements (i.e., would meet the definition of a matter to be communicated in an Emphasis of Matter paragraph) and is not significant to the audit of the current period (i.e., does not meet the definition of a matter to be communicated as a KAM). In accordance with paragraph A3 of CAS 706, if the auditor considers it necessary to draw users' attention to such a matter, the matter is included in an Emphasis of Matter paragraph in the auditor's report in accordance with CAS 706.
- 6.3 The auditor may identify a matter that is fundamental to the users' understanding of the financial statements (i.e., would meet the definition of a matter to be communicated in an Emphasis of Matter paragraph) and is also a matter of most significance in the audit of the current period (i.e., would meet the definition of a matter to be communicated as a KAM). In this circumstance, the auditor is to communicate this matter as a KAM in the auditor's report and not in an Emphasis of Matter paragraph.
- 6.4 As per [Q&A 1](#) and in accordance with paragraph A2 of CAS 706, in communicating the matter as a KAM, the auditor may wish to highlight or draw further attention to its relative importance. The auditor may do so by presenting the matter first in the "Key Audit Matters" section or by including additional information in the description of the KAM to indicate the importance of the matter to users' understanding of the financial statements.
- 6.5 In the case of Other Matter paragraphs, the practitioner should consider whether the subject of the Other Matter would meet the criteria to be a KAM. If the matter is determined to be a KAM, a separate Other Matter paragraph would

not generally be included in the auditor's report. In cases where an Other Matter paragraph is required by the CASs, determining these to be a KAM would typically be rare.

## 7 What are the reporting implications when the auditor determines that there are no KAM to communicate?

- 7.1 In the circumstance when the auditor determines no KAM are to be communicated in the auditor's report, paragraph 16 of CAS 701 requires the auditor to include a sentence to this effect. An example of such a sentence is as follows:

### *Key Audit Matters*

Key audit matters are those matters, that in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**We have determined that there are no key audit matters to communicate in our auditor's report.**

## Appendix 1

The following chart summarizes a possible writing style the auditor may find helpful when developing descriptions for each individual KAM. Please note that this is not an exhaustive list.

Writing style	Example
<b>Use past tense as the audit has already occurred</b>	Use “we inspected ...”, “we obtained ...”
<b>Include factual and specific language</b>	Instead of “we inspected various entity documentation ...” Use “we inspected the asset purchase agreement ...”
<b>Explain clearly whether a situation exists or not</b>	Instead of “if we identified reconciling items, we ...” Use “we identified reconciling items and inspected ...”
<b>Use plain language to make it easy for intended user to understand</b>	Avoid client specific terminology and auditor jargon (i.e., vouching, dual purpose test). Avoid using acronyms not otherwise defined.
<b>Do not imply discrete opinions on separate elements of the financial statements</b>	Do not use the expression “in our opinion” as it creates the risk of being viewed as providing a separate opinion on the KAM.
<b>Avoid words and expressions that may imply a level of work or degree of certainty that is not appropriate</b>	It is preferable to avoid words and expressions such as: <ul style="list-style-type: none"> <li>• Validate</li> <li>• Ensure</li> <li>• Assurance</li> <li>• Review</li> <li>• Support / Challenge (management’s position or assumptions)</li> <li>• Obtain comfort</li> <li>• Tested all items (unless every item in the population has been tested, otherwise use expressions such as “tested on a sample basis”)</li> </ul>

## CHAPTER 14

# Other Information

This chapter includes the following Q&As:

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## Illustrative Reports

The following Illustrations are included in this chapter:

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## 1 What is considered to be other information?

1.1 Paragraph 12(c) of CAS 720 defines other information as follows:

Financial or non-financial information<sup>20</sup> (other than financial statements and the auditor's report thereon) included in an entity's "annual report".

Paragraph 12(a) of CAS 720 defines an entity's "annual report" as follows:

A document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters.

1.2 Examples of documents that typically meet the definition of an "annual report" include:

- a. Management Discussion and Analysis (MD&A) issued under the provisions of Canadian securities legislation
- b. Management Report of Fund Performance issued under the provisions of Canadian securities legislation
- c. Financial Statement Discussion and Analysis or equivalent documents issued by public sector entities
- d. glossy annual report issued by an entity discussing the yearly financial results (e.g., annual report issued by a not-for-profit organization)
- e. annual reports on Form 40F, Form 20F or Form 10K for U.S. Securities and Exchange filers.

20 The financial or non-financial information included in an entity's "annual report" (i.e., other information) may include:

- amounts or other items that are intended to be the same as, to summarize, or to provide greater detail, about amounts or other items in the financial statements
- other amounts or other items about which the auditor has obtained knowledge in the audit
- other matters.

1.3 Examples of documents that do not typically meet the definition of an “annual report” include:

- a. interim-period Management Discussion and Analysis (MD&A) issued under the provisions of Canadian securities legislation:

These documents are not in scope of CAS 720 as they do not meet the definition of annual report because they would not include the audited financial statements and the auditor’s report thereon.

- b. interim-period Management Report of Fund Performance issued under the provisions of Canadian securities legislation:

These documents are not in scope of CAS 720 as they do not meet the definition of annual report because they would not include the audited financial statements and the auditor’s report thereon.

- c. Annual Information Form (AIF) filed by reporting issuers under part 6 of National Instrument 51-102:

Paragraph 11 of the Basis for Conclusion (2017) to CAS 720 indicates that the AIF is normally considered to be outside the scope of CAS 720. The AIF is normally considered outside the scope of CAS 720 as it is not required by law, regulation or custom to be filed with the financial statements or the MD&A, and its purpose is not to provide owners or similar stakeholder with information on the entity’s operations and the entity’s financial results and financial position as set out in the financial statements. The purpose of the AIF is to make certain disclosures about the entity as required by securities regulations.

If the AIF is included by reference in a document that otherwise meets the definition of an annual report or if the information in the AIF is included in a document that meets the definition of an annual report, then such information may be in scope of CAS 720. See paragraph [1.4](#) for further considerations.

- d. certifications filed by reporting issuers under part 4 of National Instrument 52-109:

Paragraph 11 of the Basis for Conclusion (2017) to CAS 720 indicates that the certifications of annual filings with Canadian Securities regulatory authorities are normally considered to be outside the scope of CAS 720. These documents are normally considered to be outside the scope of CAS 720 as their purpose is not to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. The purpose of these documents is for the certifying officer to make certain statements as required by securities regulations.

If these documents are included by reference in a document that otherwise meets the definition of an annual report or if the information in these documents is included in a document that meets the definition of an annual report, then such information may be in scope of CAS 720. See paragraph [1.4](#) for further considerations.

- e. statements of executive compensation on Form 51-102F6:

Paragraph 11 of the Basis for Conclusion (2017) to CAS 720 indicates that the statement of executive compensation is normally considered to be outside the scope of CAS 720. These documents are normally considered to be outside the scope of CAS 720 as their purpose is not to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. The purpose of these documents is to communicate the compensation the company paid, made payable, awarded, granted, gave or otherwise provided to each named executive officer and director for the financial year, and the decision-making process relating to compensation.

If these documents are included by reference in a document that otherwise meets the definition of an annual report or if the information in these documents is included in a document that meets the definition of an annual report, then such information may be in scope of CAS 720. See paragraph [1.4](#) for further considerations.

- f. press releases of a reporting issuer, including those press releases announcing to users that the MD&A, financial statements and auditor's report thereon have been issued:

Press releases are considered to be outside the scope of CAS 720 as their purpose is not to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. The purpose of press releases is to inform users of issued documents.

For example, an entity may issue a press release to inform users that the MD&A and financial statements and auditor's report thereon have been issued. While such a press release may contain further details or summaries of financial or business operations and information as set out in the financial statements, its purpose is to direct the users to the MD&A and financial statements and auditor's report thereon.

- g. Annual Information Return (AIR) filed by pension plans with the Office of the Superintendent of Financial Institutions (OSFI 49 and 49A):

Paragraph 11 of the Basis for Conclusion (2017) to CAS 720 indicates that the AIR filed by pension plans are normally considered to be outside the scope of CAS 720 because the AIR's purpose is not to provide OSFI with information on the pension plan's operations and the entity's financial results and financial position as set out in the financial statements. For example, the AIR contains information on the membership of the plan by location of employment.

- 1.4 The following important characteristics are to be considered regarding the definition of an "annual report" discussed in paragraph 1.1 above:

Format	Guidance
<p><b>A document, or combination of documents</b></p>	<p>A document may come in many different forms such as physical paper or in electronic form, such as a PDF file or a website. An electronic form may also contain more than one document, each of which could exist as standalone documents but have been “packaged” together. Documents may be “packaged” together either because they are designed to form a “cohesive package” (a “combination” of documents that “serve the same purpose”), or solely for practical reasons, without forming a “cohesive package”. When considering which documents form part of the “cohesive package”, the auditor may also consider what information may be reasonably expected to be viewed as part of the cohesive package. An example of a “cohesive package” is the “glossy” annual report of a listed entity which includes the MD&amp;A, the financial statements and the auditor’s report thereon, and may also include other information from documents such as the message from the chair of the board of directors. Because the “glossy” annual report would be considered a “cohesive package” (a combination of documents that serve the same purpose), all documents (other than the financial statements and the auditor’s report thereon) included in the “glossy” annual report would be considered other information within the scope of CAS 720. An example of what may not be considered a “cohesive package” may be if the annual report contains links to general information on the entity’s webpage, that information may not be considered part of the annual report.</p> <p>Paragraph A3 of CAS 720 states that in some cases, an entity’s annual report may be a single document and referred to by the title “annual report” or by some other title. In other cases, law, regulation or custom may require the entity to report to owners (or similar stakeholders) information on the entity’s operations and the entity’s financial results and financial position as set out in the financial statements (i.e., an annual report) by way of a single document, or by way of two or more separate documents <b>that in combination serve the same purpose.</b></p> <p>When two or more documents are “packaged” together solely for practical reasons, without forming a “cohesive package”, the auditor may look to law, regulation or custom, and should use professional judgement, to determine what documents, if any, in the “package” meet the characteristics of an annual report. If a document included in the “package” does not meet the characteristics discussed below (i.e., it does not serve the same purpose as an annual report), then that document may not be other information within the scope of CAS 720.</p> <p>“A document or combination of documents” is referred to as “a document” in the criteria below for simplicity.</p>

Format	Guidance
<p><b>prepared typically on an annual basis by management or those charged with governance</b></p>	<p>Paragraph A2 of CAS 720 states that an annual report is typically prepared on an annual basis. However, when the financial statements being audited are prepared for a period less than or more than a year, an annual report may also be prepared that covers the same period as the financial statements.</p> <p>Determining whether a document is prepared on an annual basis (as opposed to on an ad hoc basis) may be done through discussion with management or may become apparent over time.</p> <p>In addition, an annual report only includes a document that is prepared by management or those charged with governance and would therefore not include reports of a similar nature prepared by others.</p>
<p><b>in accordance with law, regulation or custom</b></p>	<p>Paragraph A1 of CAS 720 states that law, regulation or custom may define the content of an annual report, and the name by which it is to be referred, for entities in a particular jurisdiction; however, the content and the name may vary within a jurisdiction and from one jurisdiction to another.</p> <p>It is easier to determine whether a document meets the definition of an “annual report” when it is prepared in accordance with law or regulation.</p> <p>Determining the content of a document prepared in accordance with custom may be done through discussion with management or may become apparent over time based on industry norms.</p>
<p><b>the purpose of which is to provide owners (or similar stakeholders)</b></p>	<p>“Similar stakeholders” may be known under a different name according to the legal form of the entity (e.g., members in an association or partners in a partnership) but typically have similar characteristics and interests as owners.</p> <p>“Owners (or similar stakeholders)” are generally interested in all aspects of the activities of the entity. For example, the following parties would not typically be considered owners or similar stakeholders:</p> <ol style="list-style-type: none"> <li>i. A lender having made a loan to an entity as the lender is mostly concerned with the entity’s activities related to the ability to repay the loan.</li> <li>ii. A regulator monitoring certain activities of an entity as the regulator does not have similar characteristics and interests as owners.</li> </ol>

Format	Guidance
<p><b>with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements</b></p>	<p>Some regulatory documents provide financial information, however the mere fact that such a document contains certain financial information that is also included in the financial statements would likely not be sufficient on its own for the definition of an annual report to be met (see characteristic above related to the purpose of the document). A document elaborating or explaining the information contained in the financial statements is more likely to meet this requirement.</p>
<p><b>contains or accompanies the financial statements and the auditor's report thereon</b></p>	<p>Both the financial statements and the auditor's report thereon need to be included or need to accompany the document.</p> <p>If the financial statements and auditor's report thereon are incorporated by reference in a document that otherwise meets the definition of an annual report, this characteristic is likely to be met. For example, when a document provides a link to the financial statements and auditor's report thereon hosted online.</p> <p>In contrast, this characteristic is not met if only the financial statements but not the auditor's report thereon, is included or incorporated by reference in a document that otherwise meet the definition of an annual report.</p>
<p><b>and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters</b></p>	<p>The information contained in the document is typically a narrative discussion of the entity's developments, outlook, risks, and uncertainties (in addition to the financial results and financial position – see above), although graphs and tables may also be included.</p> <p>This information is usually provided to enhance the users' understanding beyond what is stated in the financial statements.</p> <p>For example, supplementary information (<a href="#">see chapter 6</a>) taking the form of schedules disaggregating certain financial statement line items would likely not meet this characteristic because they only provide a disaggregation of the data.</p>

### Determining Whether an “Annual Report” Exists

- 1.5 Paragraph 13(a) of CAS 720 requires the auditor to determine, through discussion with management, which document(s) comprises an “annual report”. The auditor may consider specifically discussing with management whether any document will be issued that meets the definition of an “annual report” and, in particular, that meets the characteristics referred to in paragraph [1.4](#) above.
- 1.6 There may be circumstances in which the entity might consider the development of a document that could meet the definition of an “annual report”, but management is unable to confirm to the auditor, prior to the date of the auditor’s report, the purpose of such a document ([refer to the characteristics of an “annual report” in paragraph 1.4 above](#)). Paragraph A17 of CAS 720 clarifies that if the auditor is unable to ascertain the purpose or timing of such a document, the document is not considered to be “other information” for purposes of CAS 720.
- 1.7 When a document that meets the definition of an “annual report” is only made available to users via the entity’s website, paragraph A19 of CAS 720 clarifies that the version of the “annual report” obtained from the entity, rather than directly from the entity’s website, is the relevant “annual report” that contains the financial and non-financial information (i.e., other information) on which the auditor would perform procedures in accordance with CAS 720.
- 1.8 When an annual report has been translated into another language it typically does not provide any new information beyond what was included in the original language annual report, and is not considered to be other information for purposes of CAS 720. It is therefore not necessary for the auditor to indicate in the Auditor’s report the original language of the annual report that was read. (for example, the English version of the MD&A). The auditor may still have responsibilities relating to the translated financial statements and auditor’s report thereon under CSOA 5000, *Use of the Practitioner’s Communication or Name*.

## 2 Does CAS 720 apply to audits of financial statements prepared in accordance with special purpose frameworks?

- 2.1 Yes, the Q&As in this chapter are relevant for audits of special purpose financial statements.
- 2.2 The Canadian Auditing Standards (CASs) in the 100-700 series apply to an audit of financial statements. CAS 800 deals with special considerations in the application of those CASs to an audit of financial statements prepared in accordance with a special purpose framework.



- 2.3 Paragraph A17 of CAS 800 states that reports containing or accompanying special purpose financial statements ([Refer to characteristics of an annual reporting in paragraph 1.4](#) above), the purpose of which is to provide owners (or similar stakeholders) with information on matters as set out in the special purpose financial statements ([Refer to characteristics of an annual reporting in paragraph 1.4](#) above), are considered to be “annual reports” for the purpose of CAS 720.

### 3 Does CAS 720 apply to audits of other historical financial information?

- 3.1 Yes, the Q&As in this chapter are relevant for audits of other historical financial information.
- 3.2 The Canadian Auditing Standards (CASs) in the 100-700 series apply to an audit of financial statements and are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. CAS 805 deals with special considerations in the application of those CASs to an audit of other historical financial information (i.e., a single financial statement or a specific element, account or item of a financial statement). The other historical financial information may be prepared in accordance with a general or special purpose framework. If prepared in accordance with a special purpose framework, CAS 800 also applies to the audit.
- 3.3 Paragraph A21 of CAS 805 indicates that reports containing or accompanying the other historical financial information ([Refer to characteristics of an annual reporting in paragraph 1.4](#) above), the purpose of which is to provide owners (or similar stakeholders) with information on matters presented in the other historical financial information ([Refer to characteristics of an annual reporting in paragraph 1.4](#) above), are considered to be annual reports for the purpose of CAS 720.

### 4 What are the reporting implications when there is other information?

- 4.1 Paragraph 22 of CAS 720 states that the following information is required to be included in the auditor’s report under a separate section with a heading “Other Information” (or other appropriate heading) depending on:
- a. the status of the other information as of the auditor’s report date:
    - The auditor has obtained *all* of the other information *prior to the date* of the auditor’s report.
    - The auditor expects to obtain *all* of the other information *after the date* of the auditor’s report.

- The auditor has obtained some of the other information *prior to the date* of the auditor’s report and expects to obtain additional *other* information *after the date* of the auditor’s report.
- b. whether the entity is a listed entity or not.

Status of the Other Information	Listed Entity	Non-Listed Entity
<p><b>The auditor has obtained all of the other information prior to the date of the auditor’s report</b></p> <p>See <a href="#">Illustration 1</a> in the Appendix for an example of a non-listed entity</p>	a. a statement that management is responsible for the other information	
	b. an identification of the other information obtained by the auditor <i>prior to the date</i> of the auditor’s report	
	c. a statement that the auditor’s opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express)* an audit opinion or any form of assurance conclusion thereon	*In <a href="#">Illustration 1</a> , the report will only say “does not express” as the auditor has obtained all of the other information prior to the date of the auditor’s report.
	d. a description of the auditor’s responsibilities relating to reading, considering and reporting* on other information as required by CAS 720	*reporting in the auditor’s report
	e. either a statement that: <ul style="list-style-type: none"> <li>— the auditor has nothing to report</li> <li>— if the auditor has concluded that there is an uncorrected material misstatement of the other information, describes the uncorrected material misstatement of the other information.</li> </ul> <p>Refer to <a href="#">Q&amp;A 7</a> below for more information on “what is a material misstatement of the other information and the impact on reporting?”</p>	

Status of the Other Information	Listed Entity	Non-Listed Entity
<p><b>The auditor expects to obtain all of the other information after the date of the auditor's report</b></p> <p><b>See <a href="#">Illustration 2</a> in the Appendix for an example of a listed entity</b></p>	<p>a. a statement that management is responsible for the other information</p>	<p>no reporting requirements for other information expected to be obtained <i>after the date</i> of the auditor's report</p>
	<p>b. an identification of the other information expected to be obtained <i>after the date</i> of the auditor's report</p>	<p>However, the auditor still has responsibilities under CAS 720 to perform the necessary procedures on the other information obtained <i>after the date</i> of the auditor's report.</p>
	<p>c. a statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express)* an audit opinion or any form of assurance conclusion thereon</p> <p>*In <a href="#">Illustration 2</a> below, the report will only say "will not express" since the auditor has obtained all of the other information after the date of the auditor's report.</p>	<p>Paragraph A52 states that, for an audit of financial statements of an entity other than a listed entity, the auditor may consider that the identification in the auditor's report of other information that the auditor expects to obtain <i>after the date</i> of the auditor's report would be appropriate in order to provide additional transparency about the other information that is subject to the auditor's responsibilities under this CAS. The auditor may consider it appropriate to do so, for example, when management is able to represent to the auditor that such other information will be issued after the date of the auditor's report. In such cases, the auditor may apply the requirements of a) through d) for a listed entity. The Illustrative Reports in this Guide do not include identification of such documents.</p>
	<p>d. a description of the auditor's responsibilities relating to reading, considering and reporting* on other information as required by CAS 720</p> <p>*reporting to those charged with governance</p>	

Status of the Other Information	Listed Entity	Non-Listed Entity
<p><b>The auditor has obtained <i>some</i> of the other information <i>prior to the date of the auditor's report</i> and expects to obtain additional other information <i>after the date of the auditor's report</i></b></p> <p><b>See <a href="#">Illustration 3</a> in the Appendix for an example of a listed entity</b></p>	<p>a. a statement that management is responsible for the other information</p> <hr/> <p>b. an identification of the other information:</p> <ul style="list-style-type: none"> <li>— obtained by the auditor <i>prior to the date</i> of the auditor's report</li> <li>— expected to be obtained <i>after the date</i> of the auditor's report.</li> </ul>	<p>b. an identification of the other information obtained by the auditor <i>prior to the date</i> of the auditor's report</p> <p>no requirement to identify the other information expected to be obtained <i>after the date</i> of the auditor's report</p> <p>However, the auditor still has responsibilities under CAS 720 to perform the necessary procedures on this other information obtained <i>after the date</i> of the auditor's report.</p> <p>Paragraph A52 states that for an audit of financial statements of an entity other than a listed entity, the auditor may consider that the identification in the auditor's report of other information that the auditor expects to obtain <i>after the date</i> of the auditor's report would be appropriate in order to provide additional transparency about the other information that is subject to the auditor's responsibilities under this CAS. The auditor may consider it appropriate to do so, for example, when management is able to represent to the auditor that such other information will be issued after the date of the auditor's report. In such cases, the auditor may apply the requirements of b) and c) for a listed entity for other information expected to be obtained <i>after the date</i> of the auditor's report. The Illustrative Reports in this Guide do not include identification of such documents.</p>

Status of the Other Information	Listed Entity	Non-Listed Entity
<p><b>The auditor has obtained <i>some</i> of the other information <i>prior to the date of the auditor's report</i> and expects to obtain additional <i>other</i> information <i>after the date of the auditor's report</i></b></p> <p>See <a href="#">Illustration 3</a> in the Appendix for an example of a listed entity</p> <p>(continued)</p>	<p>c. a statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express)* an audit opinion or any form of assurance conclusion thereon</p> <p>*In <a href="#">Illustration 3</a> below, the report will say both "does not express" and "will not express" because the auditor has obtained some of the other information prior to the date of the auditor's report and expects to obtain additional other information after the date of the auditor's report.</p>	<p>c. a statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express an audit opinion or any form of assurance conclusion thereon</p>
	<p>d. a description of the auditor's responsibilities relating to reading, considering and reporting* on other information as required by CAS 720</p> <p>*reporting in the auditor's report and reporting to those charged with governance</p>	
	<p><b>For the other information obtained by the auditor prior to the date of the auditor's report:</b></p> <p>e. either a statement that:</p> <ul style="list-style-type: none"> <li>— the auditor has nothing to report</li> <li>— if the auditor has concluded there is an uncorrected material misstatement of the other information, describes the uncorrected material misstatement of the other information</li> </ul> <p>Refer to <a href="#">Q&amp;A 7</a> below for more information on "what is a material misstatement of the other information and the impact on reporting?"</p>	

## 5 When there is other information, do the reporting implications differ depending on the reporting approach taken by the auditor related to comparative information?

- 5.1 [Chapter 4, section A, Q&A 1](#) discusses the different reporting approaches related to comparative information. Although the comparative financial statements reporting approach means the auditor's opinion refers to each period for which financial statements are presented as required by paragraph 15 of CAS 710, paragraph 2 of CAS 720 states that the auditor's opinion does not cover the other information, nor does CAS 720 require the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements. Therefore, the requirements of CAS 720 only apply to the "annual report" in respect of the current period presented.
- 5.2 Accordingly, the reporting implications when there is other information are the same, whether the auditor uses the comparative financial statement reporting approach or the corresponding figures reporting approach.

## 6 What does the auditor consider when a "close to final" version of other information is received prior to the date of the auditor's report?

- 6.1 Paragraph A15 of CAS 720 clarifies that where those charged with governance are to approve the other information in the "annual report" (Refer to [Q&A 1](#)) prior to its issuance by the entity, the final version of the "annual report" is the one that has been approved by those charged with governance for issuance. However, it may not be practical for the auditor to wait for the final version of the "annual report" in order to have sufficient time or resources to perform the procedures required by CAS 720.
- 6.2 Therefore, there may be circumstances where the auditor requests management to provide the auditor with a "close to final" version of a document, or a combination of documents, considered to meet the definition of an "annual report".
- 6.3 The auditor may compare that "close to final" version with the final version in deciding whether or not the procedures performed on the "close-to-final" version prior to the date of the auditor's report were sufficient to address the auditor's responsibilities relating to the final version. In doing so, the auditor uses professional judgement to consider the significance of any potential changes to the "close to final" version that was subject to the CAS 720 procedures (i.e., if the auditor expects no changes or only minor changes to the "close-to-final" version).

## 7 What is a material misstatement of the other information and the impact on reporting?

- 7.1 A misstatement of the other information is defined in paragraph 12(b) of CAS 720 as follows:

A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information).

- 7.2 Paragraph A7 of CAS 720 states that the concept of materiality may be discussed in a framework applicable to the other information; if discussed there, such a framework may provide a frame of reference for the auditor to make judgments about materiality under this CAS. Paragraph A7 also states that in many cases, however, there may be no applicable framework that includes a discussion of the concept of materiality as it applies to the other information. In such circumstances, paragraph A7 states that the following characteristics provide the auditor with a frame of reference for determining whether a misstatement of the other information is material:
- a. Materiality is considered in the context of the common information needs of users as a group. The users of the other information are expected to be the same as the users of the financial statements since such users may be expected to read the other information to provide context to the financial statements.
  - b. Judgments about materiality take into account the specific circumstances of the misstatement and consider whether users would be influenced by the effect of the uncorrected misstatement. Not all misstatements will influence the economic decisions of users.
  - c. Judgments about materiality involve both qualitative and quantitative considerations. Accordingly, such judgments may take into account the nature or magnitude of the items that the other information addresses in the context of the entity's annual report.
- 7.3 However, whether other information contained in “annual reports” filed with securities regulators is misleading or omits or obscures information necessary for a proper understanding of a matter disclosed in the other information as required by such securities rules and regulations is a legal determination. The auditor may identify such matters and in addition to the requirements of

paragraph 17 of CAS 720, may request the entity to discuss such matters with the entity's legal counsel. The auditor may wish to receive written representation from management regarding the outcome of such discussions or may request communication (orally or in writing) from the entity's legal counsel regarding such discussions.

### Other information received *prior* to the date of the auditor's report

- 7.4 If a material misstatement is identified in the other information received prior to the date of the auditor's report:
- a. Request management to correct the other information (paragraph 17 of CAS 720).
  - b. If management makes the correction, ascertain that the correction has been made (paragraph 17(a) of CAS 720).
  - c. If management refuses to make the correction, request those charged with governance to make the correction (paragraph 17(b) of CAS 720).
  - d. If the material misstatement in the other information is not corrected after communicating with those charged with governance:
    - Take appropriate action (paragraph 18 of CAS 720).
    - Consider the implications for the auditor's report (paragraph 18(a) of CAS 720) or withdrawal from the engagement (paragraph 18(b) of CAS 720). Paragraph 22 of CAS 720 requires the auditor to include a statement that describes the uncorrected material misstatement of the other information in the auditor's report.

### Other information received *after* the date of the auditor's report

- 7.5 If a material misstatement is identified in the other information received after the date of the auditor's report:
- a. Request management to correct the other information (paragraph 17 of CAS 720).
  - b. If management makes the correction, ascertain that the correction has been made (paragraph 17(a) of CAS 720).
  - c. If management refuses to make the correction, request those charged with governance to make the correction (paragraph 17(b) of CAS 720).
  - d. If the material misstatement in the other information is not corrected after communicating with those charged with governance:
    - Take appropriate action (paragraph 19(b) and A49 and A50 of CAS 720).



## 8 What are the reporting implications when the opinion is qualified due to a scope limitation?

- 8.1 When the audit opinion is qualified as a result of a scope limitation, as is common in audits of not-for-profit organizations, paragraph A56 of CAS 720 states that the auditor will not have obtained sufficient appropriate audit evidence about that matter. In these circumstances the auditor is unable to conclude whether or not the amounts or other items in the other information related to this matter result in a material misstatement of the other information. Accordingly, the auditor may need to modify the statement included in the other information section of the report.
- 8.2 See [illustration 4](#) of this chapter.

## 9 What are the reporting implications in relation to other information when the auditor issues a new auditor's report or amends the auditor's report previously issued?

- 9.1 In circumstances when the auditor issues a new report or issues an amended report because the entity issues amended financial statements, the auditor may need to reconsider the auditor's responsibilities relative to the other information. The nature and extent of the auditor's responsibilities depend on whether the auditor is permitted to restrict the audit procedures on subsequent events to the amendment of the financial statements.
- 9.2 As indicated in [chapter 4](#), the auditor has three methods available for dating the report when the financial statements are amended after the financial statements have been issued:
- a. Method 1: Issue a new report (new report date necessary when law, regulation or the financial reporting framework prohibits restricting the procedures to that amendment).
  - b. Method 2: Issue an amended report (amended report date for additional date and restrict the audit procedures to that amendment).
  - c. Method 3: Issue a new report, with a new report date, with an Emphasis of Matter paragraph or Other Matter paragraph (new report date with an Emphasis of Matter paragraph or Other Matter paragraph restricting the audit procedures to that amendment).
- 9.3 If Method 2 or 3 is selected and the auditor is restricting the audit procedures to that amendment, the auditor's responsibility in respect of other information obtained before the date of the original report relates to:

- a. considering the effect on the other information as reported in the auditor's report that was previously issued (e.g., whether appropriate updates in relation to the amendment have been made by management to that other information)
- b. determining whether updates to the *other information* section in the auditor's original report are necessary (e.g., if the other information was amended to agree with amended financial statements, then the *other information* section of the auditor's report may not need to be updated. However, if the name of the annual report has been amended, the auditor may also amend the name on the new / amended report. If the other information was not amended to agree with the amended financial statements then the other information section of the auditor's report may need to be updated - refer to [Q&A 7](#) of this chapter).

In respect of any other information obtained after the date of the original report but before the new or amended report, regardless of whether it was expected to be received after the date of the original auditor's report or not, the auditor's responsibility is to consider the effect on the other information but the auditor is not required to report on any other information obtained after the date of the original report.

- 9.4 If Method 1 is selected, then the *Other Information* section in the new report would address all other information subject to CAS 720 as though the report were being issued for the first time. Since a new report is being issued (without restricting the audit procedures, as discussed in Method 2 and 3), the auditor needs to consider other information as though the previous report was never issued. Accordingly, this would include any other information obtained after the date of the previous report. Furthermore, for audits of listed entities, this *Other Information* section is required (see [Q&A 4](#)) to include any other information that is expected to be obtained after the date of the new report.

## Introduction to illustrative reports

For the purposes of the illustrative reports in this chapter, the following circumstances are assumed, unless indicated otherwise:

Topic and circumstance	Reference to guidance
<b>Subject Matter</b>	
<ul style="list-style-type: none"> <li>The auditor reports on a complete set of financial statements.</li> </ul>	Chapter 5, Section A, Q&A 2
<b>Opinion</b>	
<ul style="list-style-type: none"> <li>The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate.</li> </ul>	
<b>Comparative Information</b>	
<ul style="list-style-type: none"> <li>The auditor is reporting under the corresponding figures approach (i.e., the auditor’s opinion on the financial statements refers to the current period only)</li> </ul>	Chapter 4, Q&A 1
<b>Financial Reporting Framework</b>	
<ul style="list-style-type: none"> <li>The applicable financial reporting framework is a fair presentation financial reporting framework.</li> </ul>	Chapter 1, Section D, Q&A 1
<ul style="list-style-type: none"> <li>The auditor has determined that the general purpose financial reporting framework is acceptable.</li> </ul>	Chapter 1, Section B, Q&A 2
<b>Ethical Requirements</b>	
<ul style="list-style-type: none"> <li>The auditor has decided to only make reference to relevant ethical requirements in Canada that apply to the audit.</li> </ul>	Chapter 10
<b>Going Concern</b>	
<ul style="list-style-type: none"> <li>The auditor has determined that the going concern basis of accounting is relevant.</li> </ul>	Chapter 11
<ul style="list-style-type: none"> <li>No material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.</li> </ul>	
<b>Key Audit Matters</b>	
<ul style="list-style-type: none"> <li>The auditor is not required, and has otherwise not decided, to communicate key audit matters, in accordance with CAS 701.</li> </ul>	

Topic and circumstance	Reference to guidance
<b>Responsibility of Management and Those Charged with Governance</b>	
<ul style="list-style-type: none"> <li>The terms of the audit engagement do not include any additional management responsibilities in addition to those in paragraph 6(b) of CAS 210.</li> <li>Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.</li> </ul>	Chapter 2, Q&A 3
<b>Auditor's Responsibilities</b>	
<ul style="list-style-type: none"> <li>The description of the auditor's responsibilities is included within the body of the auditor's report (refer to paragraph 41 of CAS 700).</li> </ul>	
<b>Other Reporting Responsibilities</b>	
<ul style="list-style-type: none"> <li>The auditor has no other reporting responsibilities required under law or regulation.</li> </ul>	

### **Illustration 1: Other than listed entity with an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report**

Please read the Introduction to the Illustrative Reports. For purposes of this illustrative report, the following additional circumstances are assumed:

#### **Entity:**

- The entity under audit is an entity other than a listed entity.
- The audit is not a group audit engagement (i.e., the requirements of CAS 600 do not apply).

#### **Reporting implications:**

- Other information comprises the information in the “annual report” (other than the financial statements and the auditor’s report thereon). Management entitled the “annual report” as follows: Annual Performance Report.
  - Refer to [Q&A 1](#).
- The auditor has obtained the Annual Performance Report prior to the date of the auditor’s report
  - Refer to [Q&As 4](#) and [5](#).
- The auditor has not identified a material misstatement of the other information included in the Annual Performance Report.
  - Refer to [Q&A 8](#).

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

*Opinion*

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 20X1, and its financial performance and its 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 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.

*Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon]"*

**Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, in the Annual Performance Report.**

**Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.**

**In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider 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.**

**We obtained the Annual Performance Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.**

*Responsibilities of Management and Those Charged with Governance for the 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.

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.

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

*Auditor's Responsibilities for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]

**Illustration 2: Listed entity with an unmodified opinion when the auditor has obtained no other information prior to the date of the auditor's report but expects to obtain other information after the date of the auditor's report**

Please read the Introduction to the Illustrative Reports. For purposes of this illustrative report, the following additional circumstances are assumed:

**Entity:**

- The entity under audit is a listed entity.
- The audit is a group audit engagement.
  - Refer to [chapter 12](#).

**Comparative information:**

- The auditor is reporting under the comparative financial statements reporting approach.

**Reporting implications:**

- The other information comprises of the Management's Discussion and Analysis.
  - Refer to [Q&A 1](#).
- The auditor expects to obtain the Management's Discussion and Analysis after the date of the auditor's report.
  - Refer to [Q&A 4](#).



## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

*Opinion*

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1 and 20X0, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of 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 Group as at December 31, 20X1 and 20X0, and its consolidated financial performance and its consolidated cash flows for the years 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 Group in accordance with the ethical requirements that are relevant to our audit of the consolidated 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.

*Other Information [or another title if appropriate, such as "Information Other than the Consolidated Financial Statements and Auditor's Report Thereon]"*

**Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.**

**Our opinion on the consolidated financial statements does not cover the other information and will not express any form of assurance conclusion thereon.**

**In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.**

**The Management's Discussion and Analysis is expected to be made available to us after the date of auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.**

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group'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 consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 consolidated 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.

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

[Auditor's signature]

[Auditor's address]

[Date]

**Illustration 3: Listed entity with an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report**

Please read the Introduction to the Illustrative Reports. For purposes of this illustrative report, the following additional circumstances are assumed:

**Entity:**

- The entity under audit is a listed entity.
- The audit is a group audit engagement.

**Comparative information:**

- The auditor is reporting under the comparative financial statements reporting approach.

**Reporting implications:**

- Part of the other information comprises of the Management's Discussion and Analysis.
  - Refer to [Q&A 1](#).
- The auditor has obtained the Management's Discussion and Analysis prior to the date of the auditor's report.
  - Refer to [Q&A 4](#).
- Other information also comprises of the information in the "annual report" (other than the consolidated financial statements and the auditor's report thereon.) Management will entitle the "annual report" as follows: Annual Performance Report.
  - Refer to [Q&A 1](#).
- The auditor has not identified a material misstatement of the Management's Discussion and Analysis.
- The auditor expects to obtain the Annual Performance Report after the date of the auditor's report.
  - Refer to [Q&A 4](#).

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

*Opinion*

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1 and 20X0, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of 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 Group as at December 31, 20X1 and 20X0, and its consolidated financial performance and its consolidated cash flows for the years 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 Group in accordance with the ethical requirements that are relevant to our audit of the consolidated 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.

*Other Information [or another title if appropriate, such as "Information Other than the Consolidated Financial Statements and Auditor's Report Thereon]"*

**Management is responsible for the other information. The other information comprises:**

- **The information included in the Management's Discussion and Analysis**
- **The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Performance Report.**

**Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.**

**We obtained the Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.**

**The Annual Performance Report is expected to be made available to us after the date of auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.**

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group'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 consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 consolidated 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.

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

[Auditor's signature]

[Auditor's address]

[Date]

**Illustration 4: A Not-for-Profit entity other than a listed entity, with a qualified opinion when the auditor has obtained all of the other information prior to the date of the auditor’s report and there is a limitation of scope related to the completeness of revenues**

Please read the Introduction to the Illustrative Reports. For purposes of this illustrative report, the following additional circumstances are assumed:

**Entity:**

- The entity under audit is a Not-for-Profit entity other than a listed entity.
- The audit is not a group audit engagement (i.e., the requirements of CAS 600 do not apply).

**Financial reporting framework:**

- The financial reporting framework is Canadian accounting standards for not-for-profit organizations.
  - Refer to [Chapter 1, Section A](#).
- The auditor’s report includes a scope limitation related to completeness of revenues.

**Reporting implications:**

- Other information comprises the information in the “annual report” (other than the financial statements and the auditor’s report thereon). Management entitled the “annual report” as follows: Annual Performance Report.
  - Refer to [Q&A 1](#).
- The auditor has obtained the Annual Performance Report prior to the date of the auditor’s report.
  - Refer to [Q&As 4](#) and [5](#).
- The auditor has not identified a material misstatement of the other information included in the Annual Performance Report.
  - Refer to [Q&A 8](#).



## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

*Qualified Opinion*

We have audited the financial statements of **ABC Not-for-Profit Organization (the Entity)**, which comprise the statement of financial position as at December 31, 20X1, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 20X1, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

*Basis for Qualified Opinion*

In common with many not-for-profit organizations, the Entity derives revenue from fundraising activities, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the Entity. Therefore, we were not able to determine whether any adjustments might be necessary to fundraising revenue, excess of revenues over expenses, and cash flows from operations for the years ended December 31, 20X1 and 20X0, current assets as at December 31, 20X1 and 20X0, and net assets as at January 1 and December 31 for both the 20X1 and 20X0 years. Our audit opinion on the financial statements for the year ended December 31, 20X0 was modified accordingly because of the possible effects of this limitation in scope.

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 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 qualified opinion.

*Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]*

**Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, in the Annual Performance Report.**

**Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.**

**In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider 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.**

**We obtained the Annual Performance Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report.**

**As described in the Basis for Qualified Opinion section above, we were unable to obtain sufficient appropriate evidence about the completeness of revenues from fundraising activities. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.**

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, 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.

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.

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

*Auditor's Responsibilities for the Audit of the 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.

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.

[Auditor's signature]

[Auditor's address]

[Date]



**CPA**

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